

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**CONSOLIDATED REPORT ON THE DOD-WIDE AUDIT
OF COMPLIANCE WITH PROMPT PAYMENT
PROCEDURES**

Report No. 93-071

March 22, 1993

Department of Defense

The following abbreviations and acronyms are used in this report.

DLA.....	Defense Logistics Agency
FAR.....	Federal Acquisition Regulation
OAIG-AUD...	Office of the Assistant Inspector General for Auditing
OMB.....	Office of Management and Budget
OSD.....	Office of the Secretary of Defense



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

March 22, 1993

MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Consolidated Report on the DoD-Wide Audit of Compliance
with Prompt Payment Procedures (Report No. 93-071)

We are providing this final consolidated report for your information. It summarizes a DoD-wide audit of the implementation of the Prompt Payment Act. It addresses implementation at Defense agencies and within the Military Departments. Reports on Prompt Payment implementation published earlier dealing specifically with Defense agencies, the Army, and the Air Force are attached.

Appropriate management levels have already commented. They agreed with recommendations and partially concurred with potential monetary benefits in the reports for the Defense agencies, the Army, and the Air Force. Your response to the draft of this report, containing no additional comments, conformed to the requirements of DoD Directive 7650.3, leaving no unresolved issues. No further comments are required.

The courtesies extended to the various audit staffs are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682), or Mr. Richard A. Levine, Project Manager, at (703) 693-0461 (DSN 223-0461). The distribution of this report is listed in Appendix G.

A handwritten signature in black ink, reading "Robert J. Lieberman", is centered below the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

CC:
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Air Force (Financial Management &
Comptroller)
Inspector General, Department of the Army

Office of the Inspector General, DoD

AUDIT REPORT NO. 93-071
(Project No. OFH-3001)

March 22, 1993

**DOD-WIDE AUDIT OF COMPLIANCE
WITH PROMPT PAYMENT PROCEDURES**

EXECUTIVE SUMMARY

Introduction. This DoD-wide audit was requested by the Comptroller of the Department of Defense in order to evaluate DoD's implementation of the Prompt Payment Act (the Act). During the first half of FY 1990, the reported total of appropriated funds disbursed by DoD subject to prompt payment was \$45 billion. The Act, dated May 21, 1982, and amended October 17, 1988, requires Federal agencies to make payments on time, pay interest penalties when payments are late, and take discounts only for payments made within the discount period.

Objectives. The DoD Office of the Assistant Inspector General for Auditing (OAIG-AUD) provided overall audit coordination with the Service audit organizations and the Office of the Secretary of Defense (OSD) and performed audit work in the Defense agencies and at one Naval site. Each of the audit organizations involved, except for Navy, issued an audit report (Attachments A, B, and C). To produce this consolidated report, OAIG-AUD reviewed the results to determine whether there were any systemic problems that required OSD action.

The objectives of the audit were:

- o to determine whether DoD Components were paying bills in accordance with the provisions of the Prompt Payment Act; with Office of Management and Budget (OMB) Circular A-125, which revised implementing regulations of the Act; and with the "DoD Accounting Manual," which implemented reporting requirements for OMB Circular A-125;

- o to evaluate whether the prompt payment reports submitted by DoD Components were accurate and whether economically advantageous discounts were taken; and

- o to evaluate the effectiveness of internal controls over prompt payment procedures.

Audit Results. The Defense agencies and the Services were not complying with the Act. Specific problems follow.

- o Between October 1, 1989, and March 31, 1990, excluding Air Force data reported, quarterly prompt payment reports submitted to the Comptroller, DoD, contained overstatements of \$19.6 billion and understatements of \$3.4 billion. The overstatements consisted primarily of reported payments subject to the Act, invoices paid late or too early, and interest penalties due (see Part II). Understatements consisted primarily of invoices paid late or too early.

- o Approximately \$5.8 billion was paid either late or too early, and therefore not within the time frame specified for payment for supplies and services.

- o Interest penalties on late payments, forfeited discounts, and interest paid by the Government on funds borrowed to make early payments totaled an estimated \$36 million for the 6-month period (see Part II).

- o DoD Components were not implementing internal controls as required by the Federal Managers' Financial Integrity Act (Part II).

Internal Controls. We identified material internal control weaknesses in payment operations, including control of supporting documents and records. Details are discussed in Parts I and II. We found that DoD agencies and the Services needed to improve controls over payment operations to assure that payments were issued promptly and in accordance with OMB Circular A-125. They also needed to maintain adequate documentation to support payments.

Potential Benefits of the Audit. The audit showed an estimate of \$36 million in avoidable interest on payments made either late or too early and in forfeited discounts for the 6-month period sampled. Effective internal controls over payment records, documentation of proper receiving reports, separation of duties, and establishment of quality control programs would improve the payment process and prevent unnecessary interest charges and forfeited discounts. The monetary benefits to be gained from improving those controls cannot be quantified because of the subsequent reorganization of DoD disbursing functions, variations in the levels of disbursements, and other factors (see Appendix E).

Summary of Recommendations. The audits resulted in 29 recommendations to senior financial managers within DoD. We believe that ensuring DoD-wide implementation of the OMB Circular A-125 quality control program requirements would be the single most effective step available to achieve Act goals.

Management Comments. The response from the Comptroller of the Department of Defense, dated February 11, 1993, conformed to the requirements of DoD Directive 7650.3, leaving no unresolved issues. No further comments are required.

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM	
EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives	2
Scope	2
Internal Controls	4
Prior DoD-Wide Audit	4
Other Matters of Interest	5
PART II - RESULTS OF AUDITS AND RECOMMENDATIONS	7
Synopsis of Findings	7
Discussion of Findings	7
Accuracy of Prompt Payment Reports	7
Late Payments	7
Early Payments	8
Discounts Missed	9
Inadequate Quality Control Programs	9
Conclusions	9
Recommendations for Corrective Action	10
PART III - ADDITIONAL INFORMATION	11
APPENDIX A - Sampling in the Consolidated Report	13
APPENDIX B - Comparison of Current and Prior DoD-Wide Audits on Prompt Payment Compliance	21
APPENDIX C - Late Payments in the Sampled Data	23
APPENDIX D - Early Payments in the Sampled Data	25
APPENDIX E - Summary of Potential Benefits Resulting from Audit	27
APPENDIX F - Activities Visited by Naval Audit Service	29
APPENDIX G - Report Distribution	31

This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

TABLE OF CONTENTS (cont'd)

	<u>Page</u>
PART IV - MANAGEMENT COMMENTS	33
Comptroller of the Department of Defense	35
Attachment A - DEFENSE AGENCIES' COMPLIANCE WITH PROMPT PAYMENT PROCEDURES	
Attachment B - IMPLEMENTATION OF THE PROMPT PAYMENT ACT (ARMY)	
Attachment C - DOD-WIDE REVIEW OF PROMPT PAYMENT ACT PROCEDURES (AIR FORCE)	

PART I - INTRODUCTION

The intent of this report is to present an overall picture of Prompt Payment Act implementation within the Department of Defense. This report summarizes the results of audits conducted by the Service audit organizations and DoD Office of the Assistant Inspector General for Auditing (OAIG-AUD). Reports were issued for this project by the OAIG-AUD, the Army Audit Agency, and the Air Force Audit Agency and are provided as Attachments A, B, and C, respectively. The Naval Audit Service elected not to issue a report.

Background

Prompt Payment Act. The Prompt Payment Act (the Act) (Public Law 97-177, dated May 21, 1982) requires Federal agencies (including DoD agencies and the Services) to pay their bills on time for property or services acquired from business concerns, to pay interest penalties on late payments, and to take discounts when economically justified. Bills are to be paid within 30 days after receipt of a proper invoice, with an additional 15-day grace period before interest is imposed. Implementation of the Act was expected to result in timely payments, better business relationships with suppliers, improved competition for Government business, and reduced costs to the Government for goods and services. The Act also specifies that if the Government and contractors agree to payment terms differing from the Act, the contract terms are to take precedence over the Act.

Act amended in 1988. The Act was amended by Public Law 100-496, October 17, 1988, which changed several aspects of prompt payment requirements. Significant changes are that agencies are required to use the invoice date, instead of the date the invoice was received, to determine the discount period; the 15-day grace period, during which interest need not be paid on late payments, is eliminated; early payments can be made up to 7 days before the due date instead of up to 3 days before; and agencies are required to pay additional interest penalties when interest is not paid on late payments and when discounts are taken after the discount period.

Implementing regulation. Section 3903(a) of the Act requires the Director of the Office of Management and Budget (OMB) to issue implementing regulations. The Director, OMB, issued a revision to OMB Circular A-125, "Prompt Payment," on December 12, 1989. The revision requires Federal agencies to make payments as close as possible to, but not after, the due date, and, if appropriate, by the discount date. Payments are based on receipt of proper invoices and satisfactory performance of contract terms. Agencies may take discounts only when payments are made within the discount period. Interest penalties are to be paid when agencies take discounts after the discount

period expires or fail to make payments by the due date. Federal agencies are also required to establish quality control programs to assess performance.

Federal Acquisition Regulation. On March 31, 1989, the final rules for implementing the Act were published in the Federal Acquisition Regulation (FAR) subpart 32.9. The new rules apply to all contracts awarded and renewed and to other options exercised on or after April 1, 1989. The original prompt payment criteria apply to payments on contracts awarded before April 1, 1989.

DoD Accounting Manual. The Comptroller of the Department of Defense implemented the reporting requirements in OMB Circular A-125 by publishing Chapter 98, "Special Reports," of DoD Manual 7220.9-M, "DoD Accounting Manual," August 31, 1990. Chapter 98 gave definitions, prompt payment standards, and reporting requirements.

Objectives

The audit was requested by the Comptroller of the Department of Defense. The audit objectives were:

- o to determine whether DoD Components were paying bills in accordance with the Act; with OMB Circular A-125, "Prompt Payment;" and with DoD Manual 7220.9-M, the "DoD Accounting Manual;"

- o to evaluate whether prompt payment reports submitted by DoD Components were accurate and whether economically advantageous discounts were taken; and

- o to evaluate the effectiveness of applicable internal controls.

Scope

Audit responsibilities and period of review. This is a consolidated report of the DoD-wide audit of DoD's implementation of the Act. Each Service audit organization was responsible for performing the audit within its respective Service, with overall coordination provided by OAIG-AUD. The audit was made from November 1, 1989, through January 1, 1991. Statistical sampling was from disbursements within the period October 1, 1989, to March 31, 1990. For the first 6 months of FY 1990, the total of appropriated funds disbursed by DoD subject to prompt payment was reported to be \$45 billion.

Auditing standards and technical assistance. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the

Inspector General, DoD, and accordingly, included such tests of the internal controls as were considered necessary. Statistical sampling procedures were used in the Army, Navy, and DoD agencies' audits (see Appendix A). The statistical estimates in this consolidated report were prepared by the Quantitative Methods Division of OAIG-AUD.

Comparison with statistics used in the Army Audit Agency report. In its final report, Army Audit Agency generated results from a statistical sample and reported dollar estimates based on lower bound calculations. In order to make their results comparable to the other statistical estimates in the consolidated report, the OAIG-AUD statisticians obtained additional information from the Army Audit Agency statistician. This additional, detailed information allowed OAIG-AUD to use values comparable and consistent with those of the other audits. Some of the Army results shown in this consolidated report will be different from those originally reported by the Army Audit Agency. This was simply due to the portrayal of the results using midpoints for estimates as required by the Inspector General, DoD, Internal Audit Manual.

Projection limitations of the Air Force data. The judgement sample for the Air Force was limited to sites implementing the Commercial Services Accounts Payable System. The Air Force portion applied only to the data for 1 or 2 months for the 11 activities sampled. The judgement sample cannot be considered statistically representative of the entire Air Force, in part because Air Force was implementing the new computer-based payment system during the time of the audit. The sampled data may, however, give an indication of the performance of the new system.

Assistance in gathering of Navy audit data. The OAIG-AUD assisted in gathering Navy audit data at one site. The Army Audit Agency and the Air Force Audit Agency reports describe their data-gathering efforts (see Attachments B and C).

Confidence levels, sites visited, and sampling requirements. The consolidated projections for the Defense agencies, the Army, and the Navy were calculated at the 90-percent confidence level. Activities visited or contacted are listed in Appendix F, Attachment A (Appendix N), Attachment B (Annex A), and in Attachment C (Appendix IV). The sampling process required a review of disbursement records, which typically included contracts or purchase orders, invoices, receiving reports, and evidence of payment. For each sample item, after determining

whether contract terms took precedence over the Act, extracted information was used to determine whether:

- o payment was made by the due date,
- o interest was due on any late payment,
- o any discount was taken properly, and
- o any payment was not made imprudently early.

Internal Controls

Controls assessed. We evaluated the effectiveness of the finance and accounting offices' internal management control programs covering disbursements, and we verified whether internal control weaknesses addressed in reports from prior audits and in annual statements of assurance had been corrected. We evaluated the effectiveness of the disbursement offices' quality control programs for measuring compliance with prompt payment criteria. We also evaluated internal control procedures contributing to such compliance.

Material internal control weaknesses. Material internal control weaknesses as defined by Public Law 97-255, OMB Circular A-123, "Federal Managers' Financial Integrity Act," and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, were identified. DoD agencies and the Services needed to improve controls over payment operations to assure that payments were issued promptly and in accordance with OMB Circular A-125 and maintain adequate documentation to support payments to contractors. The material deficiencies were generally not detected by the internal management control programs, but no overall reason for this was apparent.

The Defense agencies and Army reports identified material internal control weaknesses with respect to the payment and reporting of prompt payment items. Material internal control deficiencies should be corrected as part of the agencies' (or Services') internal management control programs. Details of the conditions and recommendations are discussed in the reports in Attachments A, B, and C.

Prior DoD-Wide Audit

The OAIG-AUD, in a February 16, 1988, memorandum, provided the results of a DoD-wide audit of cash management initiatives and prompt payment procedures to the Assistant Secretary of Defense (Comptroller) (now titled the Comptroller of the Department of Defense). Titled "DoD-Wide Audit of Cash Management Initiatives and Prompt Payment Procedures (Project No. 5FH-307)," the audit generally covered the period from October 1, 1984, through

March 31, 1985. In that audit, the audit organizations found that activities audited were generally not complying with the Prompt Payment Act and OMB Circular A-125 and made 73 recommendations for corrective action. In general, we found the recommendations were implemented; however, the current audit found that compliance problems were still occurring.

Comparing 1988 figures with those of the current audits, the incidence of compliance with early and late payment criteria has improved; however, the actual and potential costs resulting from noncompliance, including the percentage and value of discounts lost, show marked increases (see Appendix B).

Although sample data for the current audit were taken early in the implementation period of the revised Act, they indicated further need for compliance with the law and emphasis on quality control.

Other Matters of Interest

The FAR subpart 32.9 provides that payments on contracts awarded to foreign vendors for work performed outside of the United States be exempt from interest penalty provisions of the Prompt Payment Act. This exemption is not reflected in the wording of the Act or in OMB Circular A-125. Recent decisions on Army cases by the Armed Services Board of Contract Appeals applied the Prompt Payment Act to foreign vendors, and no further appeals were made. As a result, the FAR Council was considering changes to the FAR to remove the exemption of foreign vendors from the application of Prompt Payment Act rules. An Army recommendation relates to this matter (Attachment B, p.46, Recommendation B-9). The OAIG-AUD strongly encourages that revisions be made to the DoD Accounting Manual to remove the exemption of foreign vendors from prompt payment rules.

PART II - RESULTS OF AUDITS AND RECOMMENDATIONS

SYNOPSIS OF FINDINGS

The OAIG-AUD and the Service audit organizations involved in the DoD-wide audit identified problems such as inaccuracies in prompt payment reports, late payments, excessively early payments, and missed discounts. Those problems were caused primarily by the absence of quality control programs meeting OMB Circular A-125 criteria. Measured by our audit, the financial impact to the DoD, excluding Air Force, for the 6-month period sampled, totaled \$36.0 million. Specifics follow.

- o Interest payable on late payments was \$18.4 million.
- o Increased costs to the U.S. Government resulting from having to borrow to make payments unnecessarily early were \$8.2 million.
- o Economical discounts forfeited totaled \$9.4 million.

Discussion of Findings

Accuracy of prompt payment reports. Prompt payment reports for FY 1990 submitted through March 31, 1990, by DoD agencies, the Army, and the Navy were overstated by \$19.6 billion and understated by \$3.4 billion. The overstatements consisted primarily of payments subject to the Act (\$18.9 billion), invoices paid too early (\$.4 billion), and invoices paid late (\$.2 billion). Understatements consisted primarily of invoices paid too early (\$1.7 billion) and invoices paid late (\$1.6 billion). The Air Force Audit Agency determined that the March 31, 1990, reports for Air Force were inaccurate or not properly supported at 10 of 11 finance and accounting offices and at 2 of 5 major commands reviewed.

In the Defense agencies and Services, quality control programs compatible with OMB Circular A-125 requirements were usually not established. Within Defense agencies and the Air Force, the absence of quality control programs meeting OMB Circular A-125 criteria was identified as a prime cause for report inaccuracies. The Defense Logistics Agency (DLA) had not implemented a statistically valid method of identifying and reporting payments subject to the Act. The DLA portion of the \$18.9 billion overstatement of payments subject to the Act was \$14.6 billion. The Army Audit Agency found that major commands did not closely review the prompt pay data submitted by subordinate finance and accounting offices for completeness and accuracy.

Late payments. Through March 31, 1990, late payments for Defense agencies, the Army, and the Navy totaled \$2.77 billion in

supplies and services; that is, 22 percent of their transactions subject to the Act were paid late. For Defense agencies, 29 percent of transactions subject to the Act were paid late. Comparable figures for the Army and the Navy were 28 percent and 10 percent, respectively. Air Force Audit Agency found that 8 percent of transactions sampled were paid late.

Analysis of late payments in the sample (see Appendix C), revealed that 64 percent of the DoD late payments were more than 10 days late; 33 percent were more than 30 days late. The same data showed that Navy late payments were made earlier than those made by DoD agencies and other Service elements sampled.

For Defense agencies, the Army, and the Navy, interest penalties due on late payments totaled \$18.4 million (\$8.0 million, \$7.2 million, and \$3.2 million, respectively). For Defense agencies and the Navy, unpaid interest penalties due on late payments totaled \$5.9 million (\$4.5 million and \$1.4 million, respectively). Army estimates using midpoint data were not available. Air Force estimates of both interest due and interest unpaid arising from late payments indicated that Air Force problems in this area were minor for the sampled activities and dates.

Further details on late payments are provided in Appendix A and in Attachments A, B, and C.

In the Defense agencies, we found the absence of quality control programs a central factor in all types of payment problems. Within the Army, a primary cause of payment problems was inadequate coordination between finance and accounting offices and functional activities.

Early payments. Within the environment of deficit spending by the U.S. Government, early payments increased interest costs due to accelerated borrowing by the U.S. Government. Through March 31, 1990, early payments (those made 8 or more days before the due date, according to Revised OMB Circular A-125) by Defense agencies, the Army, and the Navy totaled \$3.0 billion, or 21 percent of their transactions subject to the Act. The projected increase in interest costs as a result of those early payments was \$8.2 million. Defense agencies and the Army differed in percentage of transactions paid early (37 percent versus 12 percent), but were essentially alike in the percentage of payment value (24 percent for both). The Navy paid 12 percent of its transactions early, 7 percent of their value. Fourteen percent of the Air Force transactions payments sampled were paid early. Higher incidences of early payments at DLA sites (53 percent of all transactions) may have resulted from an overreaction to DLA Headquarters' emphasis on avoiding late payments.

From an analysis of data sampled (not projected) (see Appendix D), 71 percent of invoices paid early were paid more than 5 days early. From the same data, the early payments made by Navy were not as early as those made by others.

Further details on early payments are provided in Appendix A and Attachments A, B, and C.

Discounts missed. In order to encourage prompt payment of amounts owed them, some vendors offered discounts as an added incentive. For the 6-month period reviewed, Defense agencies, the Army, and the Navy forfeited \$9.4 million in discounts on 284,000 transactions. Excluding Air Force, 52 percent of the number of discounts offered were forfeited. At Defense agencies, 61 percent of the discounts offered were forfeited (see Appendix A and Attachments A, B, and C).

Inadequate quality control programs. In both the Defense agencies and the Services, quality control programs were generally inadequate when measured against OMB Circular A-125 requirements. Those requirements charge agency heads with responsibility for "...establishing a quality control...program to assess performance of payment systems and provide a reliable way to estimate payment performance." Also, where the number of payment actions is too numerous to permit a total review, gathering data through a statistically valid sample is acceptable to OMB.

The OAIG-AUD and the Air Force Audit Agency suggested increased management emphasis was needed to improve their quality control programs. Both Army and Air Force audit organizations mentioned Service regulations as possible causes of quality control deficiencies. Army Audit Agency indicated that Army regulations lacked essential elements of the OMB Circular A-125 quality control requirements. Air Force Audit Agency cited a need for specific guidance in Air Force regulations on implementing OMB Circular A-125 requirements.

Conclusions

Issues of management emphasis, management oversight, and regulatory deficiencies identified in the audits should be addressed by the Services and agencies. Ensuring DoD-wide implementation of the OMB Circular A-125 quality control program requirements would be the single most effective step available to improve compliance with the Prompt Payment Act.

RECOMMENDATIONS FOR CORRECTIVE ACTION

The earlier audit reports for this project resulted in 29 recommendations to senior financial managers within DoD and the Services: 4 were to the Comptroller of the Department of Defense and the Director, Defense Finance and Accounting Service; 23 to the Assistant Secretary of the Army (Financial Management); and 2 to the Assistant Secretary of the Air Force (Financial Management and Comptroller). Recommendations were made to improve reporting accuracy and consistency; improve the timeliness for processing payments, including those involving advantageous discount offers; and strengthen the implementation of quality control requirements. The recommendations and management comments are provided in Attachments A, B, and C.

PART III: ADDITIONAL INFORMATION

APPENDIX A - Sampling in the Consolidated Report

APPENDIX B - Comparison of Current and Prior DoD-Wide
Audits on Prompt Payment Compliance

APPENDIX C - Late Payments in the Sampled Data

APPENDIX D - Early Payments in the Sampled Data

APPENDIX E - Summary of Potential Benefits Resulting from Audit

APPENDIX F - Activities Visited by Naval Audit Service

APPENDIX G - Report Distribution

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT

Sample Data

This consolidated report uses representative samples from the Army, the Navy, and the DoD agencies, plus a judgment sample from the Air Force. The latter draws from activities which had implemented a new financial system. Only the last one or two months' data for the quarter were available.

The representative samples are drawn from the transactions in the last two quarters of FY 1990. The DoD Office of the Inspector General computed estimates for the Defense agencies and the Navy. OAIG-AUD used Naval Audit Service data for the latter. Army data are based on the statistical estimates from the Army Audit Agency statistician. Differences between the Army Audit Agency report figures (Attachment B) and those used in this consolidated report are discussed under Army Audit Agency Report below.

This consolidated report computes estimates using Service or DoD data where available. The Service audit organizations and OAIG-AUD did not consistently collect data on the same aspects of prompt pay. The estimates and their margin of error are based on the Services' (or DoD agencies') data available; they are not projected to Services (or DoD agencies collectively) for which no sample data were available.

The three Service audit organizations (Army, Navy and Air Force) all used multistage designs. All three sampled activities and transactions within activities. The Air Force further stratified activities into three groups, by the dollar volume of business. The three Services' estimates, together with the DoD agencies', comprise four strata; they are used to compute projections for the consolidated report. Note, however, that the Air Force sample is not representative of the Air Force as a whole for the two quarters' data; the other three samples are. The Air Force "universe" is made up of the actions at the eleven activities for the one or two months' data from which the Air Force Audit samples were taken. Its estimates apply only to that universe.

Estimates

The consolidated estimates use a 90-percent confidence level in computing their margin of error. Army Audit Agency sampled and computed its estimates at a 90-percent confidence level; the remainder used 95 percent. Therefore, a 90-percent confidence level was used for the consolidated

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)

estimate calculations. The estimates and margins of error only apply to combined Services or DoD activities where sample data were drawn for a given aspect of Prompt Payment Act compliance. The overall estimates do not extend to aspects of compliance where no sample data were drawn for a given organization. The Air Force portion applies only to data for the 1 or 2 months examined for the 11 activities sampled. It cannot be considered statistically representative of the entire Air Force, in part because Air Force was implementing a new computer-based payment system during the audit time frame. The sampled data may, however, give indication of the performance of the new system. The input data for these calculations are provided below.

Tables

The tables provide Service or DoD agency estimates of number of transactions and their dollar values for the particular prompt payment aspect in question, if the Component's audit data included it. They also provide the margin of error values which the Service or OAIG-AUD staff computed.

The OAIG-AUD used stratified attributes sample procedures to compute the estimates of the number of transactions DoD-wide and the associated margin of error. It computed the dollar values and associated margins of error using ratio estimate procedures. This consolidated report includes margin of error estimates as provided by the audit organization that computed each Service's estimate. The analysis for this report uses only the point estimates for its variables estimates, because the Services' and DoD agencies' estimated margins of error are based on different confidence levels.

Army Audit Agency Report

This consolidated report uses statistical estimates obtained from the Army Audit Agency statistician. Army results show numbers which were calculated based on data received from the Army Audit Agency statistician after the issuance of the Army report. We asked for these data in order to allow all results to be comparable statistically for this consolidated report. The issue involves our need to use midpoint estimates for all projected values; Army Audit Agency has portrayed results in its report using point estimates for numbers of actions and using lower bound estimates for dollar values. The numbers in the Army's report will be different from some of those in the consolidated report for this reason.

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)**Explanation of Tables 1 Through 10**

The sample size and universe data are shown in Table 1, with breakdowns by Defense agencies and each Military Department. Tables 2 through 10 show statistical estimates based on results of the sample and are applicable against the universe from which the samples were drawn. The margins of error shown in Tables 2 through 10 relate to the respective column totals.

TABLE 1. - SAMPLE SIZE AND UNIVERSE DATA

Organization	Sample	Universe	
	Transactions Number	Transactions Number	Value (000's)
Agencies	1,077	1,038,904	\$ 5,923,086
Army	710	919,469	5,983,059
Navy	973	1,055,153	2,774,974
Air Force	<u>1,305</u>	<u>84,474</u>	<u>572,600</u>
Total	<u>4,065</u>	<u>3,098,000</u>	<u>\$15,253,719</u>

TABLE 2. - INVOICES PAID LATE WITH INTEREST PAYABLE

Organization	Estimates Based on Table 1		
	Transactions Number	Value (000's)	Interest Value (000's)
Agencies	303,320	\$1,160,767	\$ 8,016
Army	253,906	1,081,156	7,221
Navy	109,528	523,468	3,173
Air Force	<u>6,405</u>	<u>56,311</u>	<u>No Data</u>
Total	<u>673,159</u>	<u>\$2,821,702</u>	<u>\$18,410</u>
Margin of Error	252,555	\$142,481	\$1,852

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)**TABLE 3. - INVOICES PAID LATE WITH INTEREST DUE BUT UNPAID**

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Interest</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	78,909	\$ 852,026	\$ 4,491
Army	No Data	No Data	No Data
Navy	60,728	302,051	1,395
Air Force	<u>2,282</u>	<u>No Data</u>	<u>36</u>
Total	<u>141,919</u>	<u>\$1,154,077</u>	<u>\$ 5,922</u>
Margin of Error	89,023	\$1,014,984	\$5,304

TABLE 4. - INVOICES PAID LATE WITH INTEREST PAID

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Interest</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	224,411	\$308,741	\$3,524
Army	No Data	No Data	No Data
Navy	49,884	221,465	1,766
Air Force	<u>1,878</u>	<u>229</u>	<u>No Data</u>
Total	<u>276,173</u>	<u>\$530,435</u>	<u>\$5,290</u>
Margin of Error	266,426	\$436,092	\$4,413

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)**TABLE 5. - INVOICES PAID EARLY**

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Interest</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	380,063	\$1,407,734	\$4,006
Army	112,543	1,408,059	3,857
Navy	131,216	200,400	343
Air Force	<u>12,210</u>	<u>No Data</u>	<u>95</u>
Total	<u>636,032</u>	<u>\$3,016,193</u>	<u>\$8,301</u>
Margin of Error	333,875	\$809,529	\$2,547

TABLE 6 - DISCOUNTS OFFERED

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Discount</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	188,910	\$1,234,895	\$10,023
Army	176,032	803,424	No Data
Navy	181,100	483,521	6,383
Air Force	<u>19,260</u>	<u>No Data</u>	<u>1,275</u>
Total	<u>565,302</u>	<u>\$2,521,840</u>	<u>\$17,681</u>
Margin of Error	24,146	\$545,822	\$13,653

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)**TABLE 7. - DISCOUNTS TAKEN**

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Discount</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	73,307	\$660,768	\$ 5,032
Army	No Data	No Data	No Data
Navy	87,839	283,035	4,657
Air Force	<u>15,120</u>	<u>No Data</u>	<u>1,230</u>
Total	<u>176,266</u>	<u>\$943,803</u>	<u>\$10,919</u>
Margin of Error	101,951	\$898,852	\$8,538

TABLE 8. - DISCOUNTS FORFEITED

Organization	<u>Estimates Based on Table 1</u>		
	<u>Transactions</u>		<u>Discount</u>
	<u>Number</u>	<u>Value</u> <u>(000's)</u>	<u>Value</u> <u>(000's)</u>
Agencies	115,603	\$574,127	\$5,000
Army	75,472	174,060	2,625
Navy	93,261	200,486	1,821
Air Force	<u>4,393</u>	<u>No Data</u>	<u>54</u>
Total	<u>288,729</u>	<u>\$948,673</u>	<u>\$9,500</u>
Margin of Error	36,710	\$477,083	\$2,873

APPENDIX A. SAMPLING IN THE CONSOLIDATED REPORT (cont'd)

TABLE 9. - IMPROPER OR MISSING INVOICES

Organization	<u>Estimates Based on Table 1</u>	
	<u>Transactions</u>	
	<u>Number</u>	<u>Value</u> <u>(000's)</u>
Agencies	34,406	\$ 97,157
Army	No Data	No Data
Navy	7,591	18,450
Air Force	<u>14,360</u>	<u>129,416</u>
Total	<u>56,357</u>	<u>\$245,023</u>
Margin of Error	47,229	\$257,609

TABLE 10. - IMPROPER OR MISSING RECEIVING REPORT

Organization	<u>Estimates Based on Table 1</u>	
	<u>Transactions</u>	
	<u>Number</u>	<u>Value</u> <u>(000's)</u>
Agencies	226,187	\$ 429,820
Army	No Data	No Data
Navy	91,092	525,486
Air Force	<u>14,614</u>	<u>44,930</u>
Total	<u>331,893</u>	<u>\$1,000,236</u>
Margin of Error	252,482	\$863,219

**APPENDIX B. COMPARISON OF CURRENT AND PRIOR DOD-WIDE AUDITS
ON PROMPT PAYMENT COMPLIANCE**

	<u>Current Audit</u> <u>1/</u>	<u>Prior Audit</u> <u>2/</u>
Percentage, vouchers paid late	22	28
Interest due	\$18.4 million	\$3.9 million
Percentage, vouchers paid early	21	32
Added cost of early payments	\$ 8.2 million	\$5.7 million
Percentage of offered discounts forfeited	52	16
Value of discounts forfeited	\$ 9.4 million	\$5.9 million

1/ Excludes Air Force transactions

2/ February 16, 1988

APPENDIX C. LATE PAYMENTS IN THE SAMPLED DATA

	<u>Days Late</u>			
	<u>1-5</u>	<u>6-10</u>	<u>11-30</u>	<u>Over 30</u>
<u>Agencies</u>				
Number	151	57	194	240
Percentage	24	9	30	37
<u>Army</u>				
Number	51	25	54	53
Percentage	28	14	30	29
<u>Navy</u>				
Number	51	16	42	34
Percentage	36	11	29	24
<u>Air Force</u>				
Number	22	13	37	27
Percentage	22	13	37	27
<u>DoD Total</u>				
Number	275	111	327	354
Percentage	26	10	31	33

APPENDIX D. EARLY PAYMENTS IN THE SAMPLED DATA

	<u>Days Early</u>			
	<u>1-5</u>	<u>6-10</u>	<u>11-15</u>	<u>16 or more</u>
<u>Agencies</u>				
Number	214	192	171	152
Percentage	29	26	24	21
<u>Army</u>				
Number	51	25	54	53
Percentage	28	14	29	29
<u>Navy</u>				
Number	36	29	33	14
Percentage	32	26	29	13
<u>Air Force</u>				
Number	9	11	8	17
Percentage	20	24	18	38
<u>DoD Total</u>				
Number	310	257	266	236
Percentage	29	24	25	22

APPENDIX E. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
Part II, Savings and Cost Avoidance	Internal controls and compliance with regulations. Improve compliance with Prompt Payment Act and reduce interest and late payment penalties.	Not quantifiable.

APPENDIX F. ACTIVITIES VISITED BY NAVAL AUDIT SERVICE 1/

Naval Regional Finance Center, Washington, DC
Navy Supply Center, Oakland, CA
Puget Sound Naval Shipyard, Bremerton, WA
Naval Construction Battalion Center, Port Hueneme, CA

1/ Activities visited by the other audit organizations are listed in each of their respective reports in Attachments A, B, and C.

APPENDIX G. REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense
Deputy Comptroller of the Department of Defense (Management Systems)

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Installation and Logistics)
Assistant Secretary of the Army (Research, Development and Acquisition)
Inspector General, Department of the Army
Auditor General, U.S. Army Audit Agency
Director, U.S. Army Contracting Support Agency

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management & Comptroller)
Auditor General, Air Force Audit Agency

Defense Activities

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Non-DoD Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division, Technical Information Center

APPENDIX G. REPORT DISTRIBUTION (cont'd)

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

PART IV: MANAGEMENT COMMENTS

Comptroller of the Department of Defense

MANAGEMENT COMMENTS: COMPTROLLER OF THE DEPARTMENT OF DEFENSE



COMPTROLLER OF THE DEPARTMENT OF DEFENSE
WASHINGTON, DC 20301-1100

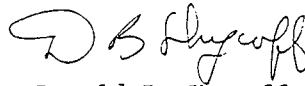
FEB 11 1993

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the DoD-Wide Audit of Compliance with
Prompt Payment Procedures (Project No. OFH-3001.01)

The DoD Comptroller and Defense Finance and Accounting
Service have reviewed the draft audit report, and no additional
comments are offered.

The point of contact is Mr. Jack Foust, DFAS-HQ/FCC, on
(703) 607-0528.


Donald B. Shycoff
Acting Comptroller

INDIVIDUAL REPORTS

ATTACHMENT A - Defense Agencies' Compliance with Prompt Payment Procedures

ATTACHMENT B - Implementation of the Prompt Payment Act (Army)

ATTACHMENT C - DoD-Wide Review of Prompt Payment Act Procedures (Air Force)

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE AGENCIES' COMPLIANCE WITH
PROMPT PAYMENT PROCEDURES**

Report Number 92-088

May 8, 1992

This special version of the report has been revised to omit certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959.

Department of Defense

The following abbreviations and acronyms are used in this report.

AFRTS.....	Armed Forces Radio & Television Service
COR.....	Contracting Officer's Representative
DCA.....	Defense Communications Agency
DCA-HQ.....	Defense Communications Agency Headquarters
DCMR.....	Defense Contract Management Region
DDOU.....	Defense Depot, Ogden, Utah
DDRW.....	Defense Distribution Region West
DFAS.....	Defense Finance & Accounting Service
DGSC.....	Defense General Supply Center
DISC.....	Defense Industrial Supply Center
DLA.....	Defense Logistics Agency
DLAFC.....	Defense Logistics Agency Finance Center
DMA.....	Defense Mapping Agency
F&AO.....	Finance and Accounting Office
NSA.....	National Security Agency
OMB.....	Office of Management and Budget
QMD.....	Quantitative Methods Division



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



May 8, 1992

**MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE**

**SUBJECT: Report on the Audit of Defense Agencies' Compliance
with Prompt Payment Procedures (Report No. 92-088)**


We are providing this final report for your information and use. Your comments on a draft of this report were considered in preparing the final report. This audit was made as part of a DoD-wide audit of DoD's implementation of the Prompt Payment Act. It addresses the implementation of the Prompt Payment Act at Defense agencies. Observations in this report and in audits by the Military Departments will be reported in a DoD-wide report to be published later.

We concluded that Defense agencies were not consistently complying with the Prompt Payment Act. Prompt payment reports were not accurate, and payments were often made outside of the times specified by the Act.

Your comments conformed to the requirements of DoD Directive 7650.3, except that further comments are required on monetary benefits and corrective actions taken or planned. Please provide us with completion dates for actions already taken and estimated dates for completion of planned actions. You have concurred in the \$17 million estimated savings that could have been realized in the 6-month period reviewed; please comment on the \$204 million in Appendix M. This amount is a projection of the 6-month estimate to FYs 1992 through 1997, a 6-year period.

If you nonconcur with the projected monetary benefits or any part thereof, please state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Please provide your comments by July 6, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682, (DSN 224-1682), or Mr. Richard A. Levine, Project Manager, at (703) 693-0461 (DSN 223-0461). The distribution of this report is listed in Appendix O.


Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

SPECIAL WARNING

This special version of the report has been revised to omit certain unclassified information relating to the organization and function of the National Security Agency that may be protected by Public Law 86-36, May 29, 1959.

Office of the Inspector General

AUDIT REPORT NO. 92-088
(Project No. OFH-3001)

May 8, 1992

AUDIT OF DEFENSE AGENCIES' COMPLIANCE
WITH PROMPT PAYMENT PROCEDURES

EXECUTIVE SUMMARY

Introduction. The Prompt Payment Act, dated May 21, 1982, and amended on October 17, 1988, requires Federal agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made within the discount period. On December 12, 1989, the Director of the Office of Management and Budget (OMB) revised the implementing regulations in OMB Circular A-125, "Prompt Payment." Chapter 98 of DoD Manual 7220.9-M, the "DoD Accounting Manual," issued by the Comptroller of the Department of Defense on August 31, 1990, implemented the reporting requirements in OMB Circular A-125.

Objectives. This audit was requested by the Comptroller of the Department of Defense and was made as part of a DoD-wide audit of DoD's implementation of the Prompt Payment Act. The objectives of the audit were:

- o to determine whether DoD Components were paying bills in accordance with the provisions of the Prompt Payment Act, OMB Circular A-125, and the DoD Accounting Manual;

- o to evaluate whether the prompt payment reports submitted by DoD Components were accurate, and whether economically advantageous discounts were taken; and

- o to evaluate the effectiveness of internal controls over prompt payment procedures.

Audit Results. The audit showed that the Defense agencies were not complying with the Prompt Payment Act.

- o Between October 1, 1989, and March 31, 1990, quarterly prompt payment reports submitted to the Comptroller, DoD, were overstated by \$16 billion and understated by \$627.9 million. These overstatements and understatements consisted primarily of reported payments subject to the Prompt Payment Act, invoices paid late and early, and interest penalties due (Finding A).

- o \$2.6 billion was paid early or late, but not within the time frame specified for payment for supplies and services (Finding B).

o Interest penalties on late payments, interest paid by the Government on funds borrowed to make early payments, and forfeited discounts totaled an estimated \$17 million for the 6-month period (Finding B).

o DoD Components were not implementing internal controls as required by the Federal Managers' Financial Integrity Act (Finding B).

Internal Controls. We identified material internal control weaknesses in payment operations, including control of supporting documents and records. Details are discussed in Part I and Part II, Finding B.

Potential Benefits of the Audit. The audit showed an estimated \$204 million in unnecessary interest on early and late payments and available discounts that will be forfeited unless the payment process is improved to achieve better prompt pay performance (Appendix M). Effective internal controls over payment records, documentation of proper receiving reports, separation of duties, and the establishment of quality assurance programs will improve the payment process.

Summary of Recommendations. We recommended that the Comptroller, DoD, direct the paying offices to fully comply with the requirements in OMB Circular A-125 for quality control and reporting. We also recommended that the Director, Defense Finance and Accounting Service (DFAS), ensure that all new or enhanced accounting systems collect the necessary data on payments subject to the Prompt Payment Act, and that material internal control weaknesses in payment operations are reported in the agencies' annual statements of assurance to the Secretary of Defense. Details of the recommendations are discussed in Part II, Findings A and B.

Management Comments. The Comptroller, DoD, and the DFAS, were asked to comment on the report. (See Part IV for joint comments.) Although the Comptroller, DoD, and the Director, DFAS, concurred with the findings and each recommendation, we have requested further comments on the monetary benefits and expected completion dates for corrective actions.

TABLE OF CONTENTS

	<u>Page</u>
TRANSMITTAL MEMORANDUM	1
EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives	2
Scope	2
Internal Controls	3
Prior Audits and Other Reviews	4
Other Matters of Interest	5
PART II - FINDINGS AND RECOMMENDATIONS	7
A. Accuracy of Prompt Payment Reports	7
B. Payment Problems	11
PART III - Additional Information	17
APPENDIX A - Prompt Payment Reporting Requirements in OMB Circular A-125	19
APPENDIX B - Universe of Commercial Payments by Agency and Activity	23
APPENDIX C - Universe of Finance and Accounting Offices Reviewed	25
APPENDIX D - Actual Invoices Sampled at DoD Finance and Accounting Offices	27
APPENDIX E - Statistical Sampling Plan and Methodology	29
APPENDIX F - Understated/Overstated Projections for Comparison to the Defense Agencies' Prompt Payment Reports	35
APPENDIX G - Projected Dollar Value of Late Payments for All DoD Agencies	37

TABLE OF CONTENTS (cont'd)

	<u>Page</u>
APPENDIX H - Projected Number of Late Payments for All DoD Agencies	39
APPENDIX I - Projected Early Payments for All DoD Agencies	41
APPENDIX J - Projected Discounts for All DoD Agencies	43
APPENDIX K - Comparison of Audit Projections with Consolidated Defense Agency Prompt Payment Report	45
APPENDIX L - Projected Missing or Improper Receiving Reports for DoD Agencies	47
APPENDIX M - Summary of Potential Benefits Resulting from Audit	49
APPENDIX N - Activities Visited or Contacted	51
APPENDIX O - Report Distribution	53
PART IV - MANAGEMENT COMMENTS	55
Comptroller of the Department of Defense	57

This report was prepared by the Financial Management Directorate,
Office of the Assistant Inspector General for Auditing, DoD.
Copies of the report can be obtained from the Information
Officer, Audit Planning and Technical Support Directorate (202)
614-6303 (DSN 224-6303).

PART I: INTRODUCTION

Background

Prompt Payment Act. The Prompt Payment Act (the Act) (Public Law 97-177), dated May 21, 1982, requires Federal agencies to pay their bills on time for property or services acquired from business concerns, to pay interest penalties on late payments, and to take discounts when economically justified. Bills are to be paid 30 days after receipt of a proper invoice. Implementation of the Act was expected to result in timely payments, better business relationships with suppliers, improved competition for Government business, and reduced costs to the Government for goods and services. The Act also specifies that if the Government and contractors agree to payment terms differing from the Act, the contract terms take precedence over the Act.

Act amended in 1988. The Act was amended by Public Law 100-496, October 17, 1988, which changed several aspects of prompt payment requirements. Significant changes were:

- o Agencies were required to use the invoice date, instead of the date the invoice was received, to determine the discount period;

- o The 15-day grace period, during which interest need not be paid on late payments, was eliminated;

- o Early payments could be made up to 7 days instead of up to 3 days before the due date; and

- o Agencies were required to pay additional interest penalties when interest was not paid on late payments and when discounts were taken after the discount period.

Implementing regulations. Section 3903(a) of the Act requires the Director of the Office of Management and Budget (OMB) to issue implementing regulations. The Director, OMB, revised OMB Circular A-125, "Prompt Payment," on December 12, 1989. The revision required Federal agencies to make payments as close as possible to but not after the due date, or if appropriate, the discount date. Payments are based on receipt of proper invoices and satisfactory performance of contract terms. Agencies may take discounts only when payments are made within the discount period. Interest penalties are to be paid when agencies take discounts after the discount period expires or fail to make timely payments.

Federal Acquisition Regulation. On March 31, 1989, the final rules for implementing the Act were published in the Federal Acquisition Regulation (FAR) subpart 32.9. The new rules apply to all contracts awarded and renewed and to other options exercised on or after April 1, 1989. The original prompt payment criteria applied to payments on contracts awarded before April 1, 1989.

DoD Accounting Manual. The Comptroller of the Department of Defense implemented the reporting requirements in OMB Circular A-125 by publishing Chapter 98 of DoD Manual 7220.9-M, "DoD Accounting Manual," August 31, 1990. Chapter 98 gave definitions, prompt payment standards, and reporting requirements.

Objectives

This audit was requested by the Comptroller of the Department of Defense. The audit objectives were:

- o to determine whether DoD Components were paying bills in accordance with the Act, with OMB Circular A-125, "Prompt Payment," and with DoD Manual 7220.9-M, the "DoD Accounting Manual";

- o to evaluate whether prompt payment reports submitted by DoD Components were accurate, and whether economically advantageous discounts were taken; and

- o to evaluate the effectiveness of applicable internal controls.

Scope

DoD-wide audit of prompt payments. This audit was made as part of the DoD-wide audit of DoD's implementation of the Act. Auditors for the U.S. Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency simultaneously audited the Military Departments. The results will be consolidated in a DoD-wide audit report.

Six Defense agencies that are not serviced by Military Department finance and accounting offices (F&AOs) and one Defense activity serviced by the F&AO at Fort Ord, California, disbursed \$34.1 billion for commercial payments between October 1, 1989, and March 31, 1990 (see Appendix B).

Statistical sample. We reviewed payments made by 12 F&AOs of the 6 agencies and 1 activity, representing \$17.1 billion in reported commercial payments (see Appendix C). To project the implementation of the Act for all Defense agencies not serviced by the Military Departments' F&AOs, we selected a statistical

sample from invoices at the 12 F&AOs visited (see Appendix D). The period reviewed was from October 1, 1989, through March 31, 1990. Selection of sites for the sample was based on the aggregate dollar value of commercial disbursements by F&AOs. Appendix E outlines the statistical sampling plan and methodology used. Of the 12 F&AOs visited, samples from sites in St. Louis, Missouri, and Columbus, Ohio, were judgementally selected and therefore could not be used for projections. Projected estimates were calculated at the 95-percent confidence level.

Determining if invoices were paid. For each sampled invoice, we ascertained whether the terms of the contract took precedence over the Act, and determined whether the original Act or the 1988 amendment was applicable. For each invoice selected, we obtained documentation, including a copy of the invoice, the related contract or purchase order, evidence of receipt and acceptance of the items or services purchased, and a list that showed the check date or check mailing date. We extracted contract terms and dates needed to determine the invoice due date. Based on this information, we then determined if the agency had:

- o paid invoices by due dates,
- o paid any interest due on late payments,
- o taken vendor-offered discounts within established terms, and
- o prudently managed cash by not paying too early.

Audit period, location, and standards. This performance audit was made from November 1, 1989, through January 1, 1991, in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Activities visited or contacted are listed in Appendix N.

Internal Controls

Controls assessed. We evaluated the effectiveness of the F&AOs' internal management control programs in identifying and reporting internal control deficiencies, and we verified whether internal control weaknesses addressed in prior audit reports and the Defense agencies' annual statements of assurance had been corrected as reported. Material internal control deficiencies should be corrected as part of the agencies' internal management control programs.

Material internal control weaknesses. The audit identified material internal control weaknesses as defined by Public Law 97-255, OMB Circular A-123, "Federal Managers' Financial Integrity Act," and DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We found that agencies needed

to improve controls over payment operations by issuing payments promptly and in accordance with OMB Circular A-125, and by maintaining adequate documentation to support payments to contractors. Estimated savings of \$204 million will result from correcting internal control deficiencies (see Appendix M). The details of these conditions are discussed in Part II, Finding B; Recommendation B.1. will correct the internal control deficiencies. A copy of this report will be provided to senior DoD officials responsible for internal controls.

Prior Audits and Other Reviews

The Office of the Assistant Inspector General for Auditing, DoD, had issued four audit reports on cash management initiatives and prompt payment procedures at Defense agencies: Report No. 86-058 on the Armed Forces Radio & Television Service, January 31, 1986; Report No. 87-022 on the Defense Logistics Agency, October 23, 1986; Report No. 87-023 on the National Security Agency, October 23, 1986; and Report No. 87-024 on the Defense Communications Agency ^{1/}, October 23, 1986. These reports showed that interest penalties were not paid, discounts were taken improperly, discounts were lost, and invoices were paid early.

Although recommendations for three of four agencies were implemented prior to the 1988 amendment to the Prompt Payment Act, our review has disclosed that improvements still need to be made in order to comply with the revised requirements (see Findings A and B).

The Defense Logistics Agency failed to implement recommendations to:

- o direct paying offices to fully comply with the requirements and the intent of the Act, especially when invoices must be processed manually; and

- o establish procedures to require agency paying offices to maintain accountability over interest penalties due for late payment.

The Defense Logistics Agency (DLA) had acknowledged that problems existed and had stated that all recommendations would be implemented. During our audit, DLA reported to the Office of the Assistant Inspector General for Analysis and Followup, DoD, that all recommendations had been implemented. However, the "Audit of the Internal Review Activity at the Defense Logistics Agency," DoD, IG, Report No. 91-013, November 23, 1990, showed that DLA had not fully implemented corrective actions.

^{1/} This agency was officially redesignated the Defense Information Systems Agency on January 25, 1991. However, we refer to the Defense Communications Agency in this report.

Other Matters of Interest

FAR subpart 32.9 provides that payments on contracts awarded to foreign vendors are exempt from interest penalty provisions of the Prompt Payment Act. This exemption is not reflected in the wording of the Act or in OMB Circular A-125. At the time of the audit, the FAR Council was considering whether to exempt foreign vendors from the provisions of the Act.

PART II: FINDINGS AND RECOMMENDATIONS

A. ACCURACY OF PROMPT PAYMENT REPORTS

The Defense Agencies sent inaccurate prompt payment reports to the Comptroller of the Department of Defense. For the period October 1, 1989, through March 31, 1990, the aggregate reportable items in quarterly prompt payment reports were overstated by \$16 billion (2.8 million transactions) and understated by \$627.9 million (1.4 million transactions). These conditions occurred because F&AOs reported vouchers instead of invoices; F&AOs did not report all early and late payments, discounts offered and taken, discounts forfeited, and payments subject to the Act; F&AO managers did not comply with OMB Circular A-125 by drawing statistical samples to collect data on payments subject to the Act; and accounting systems were not designed to identify invoices subject to the Act. As a result, the Comptroller of the Department of Defense was not able to report accurate statistics to the Office of Management and Budget or Congress on the Defense agencies' implementation of the Act.

DISCUSSION OF DETAILS

Background. The 1988 amendment to the Act (Public Law 100-496), dated October 17, 1988, and the revised OMB Circular A-125, issued December 12, 1989, require the Director, OMB, to report to Congress by the 120th day after the end of each fiscal year (January 28), summarizing agencies' prompt payment reports and analyzing progress made in improving payment operations. In addition, the Director, OMB, submits the annual prompt payment report to Congress with the President's Budget. Each Federal agency is to report prompt payment data to the Director, OMB, by November 30 following the end of the fiscal year (see Appendix A).

The Comptroller, DoD, implemented OMB Circular A-125 by publishing Chapter 98 of DoD Manual 7220.9-M, "DoD Accounting Manual." Chapter 98 requires Defense agencies and F&AOs under the Office of the Secretary of Defense to submit quarterly prompt payment reports to the Director of Budget and Finance, Washington Headquarters Services, by the 25th calendar day after the close of each quarter. The prompt payment report for the fiscal year is due November 10.

DoD 7220.9-M requires the Military Departments and Washington Headquarters Services to submit quarterly prompt payment reports to the Comptroller, DoD, by the end of the month following the close of each quarter. The annual prompt payment reports are due to the Comptroller, DoD, by November 15.

Prompt payment data are to be consolidated into DoD-wide reports for the Comptroller, DoD. The Comptroller, DoD, sends the DoD

prompt payment report to OMB by November 30 each year; OMB reports the data to Congress when the President's Budget is submitted.

The "Scope" section in Part I of this report explains our audit approach. Appendix E, "Statistical Sampling Plan and Methodology," outlines statistical requirements, analyses, exceptions, and projections.

Compliance with Prompt Payment Reporting Requirements

During the 6-month period between October 1, 1989, and March 31, 1990, we found inconsistencies in the following areas:

- o reporting payments subject to the Act;
- o details of early and late payments;
- o payment of interest penalties; and
- o reporting of discounts offered, taken, or forfeited.

This resulted in overstatements of \$16 billion and understatements of \$627.9 million of reportable items in the prompt payment reports submitted to the Comptroller, DoD, for the first and second quarters (see Appendixes F and K).

Defense Logistics Agency. For the period October 1, 1989, through March 31, 1990, the Defense Logistics Agency (DLA) overstated its quarterly prompt payment reports by \$15.3 billion and understated the reports by \$2.2 million. Overstatements totaling \$14.6 billion resulted from the use of inappropriate statistical methods to project payments that would be subject to the Act. DLA headquarters instructed the F&AOs at the Defense Contract Management Regions (DCMRs) to use a 60-percent ratio as an estimate for identifying and reporting payments subject to the Act. The DCMRs used this percentage to establish the universe of payments subject to the Act, causing a significant miscalculation. To obtain the number and dollar value of these payments, the percentage was multiplied by the amount of total commercial payments, obtained from the Mechanization of Contract Administration Services accounting system. Instead of using a 60-percent ratio, each DCMR's accounting data base should have been statistically sampled in order to project payments subject to the Act.

*
*
*

* Information relating to the organization and function of the National Security Agency has been deleted.

*
*
*

*
*
*

Armed Forces Radio and Television Service. The budget officer for the Armed Forces Radio and Television Service (AFRTS) did not file any reports to comply with the requirements of OMB Circular A-125. Reports for AFRTS should have included \$9.5 million in payments subject to the Act; early and late payments; interest penalties; and discounts offered, taken, and forfeited. The AFRTS budget officer stated that his organization precertifies invoices for payment, and that the F&AO at Fort Ord, California (AFRTS's disbursing office), was responsible for complying with the reporting requirements of the Act. However, the F&AO at Fort Ord did not include AFRTS in its quarterly prompt payment reports to the Department of the Army. The finance officer at Fort Ord stated that AFRTS should have reported the data because the payments were precertified before receipt by the F&AO.

DoD Manual 7220.9-M, "DoD Accounting Manual," states that the paying office should pay and report all payments for which it is responsible, regardless of the agency being serviced. Agencies that receive disbursing support are to ensure that their prompt payment data are accurately reflected in the quarterly and annual prompt payment reports of the disbursing office. The F&AO at Fort Ord should file reports in accordance with prompt payment requirements, and AFRTS should ensure that reports contain accurate data.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense direct paying offices to fully comply with the reporting requirements of Office of Management and Budget Circular A-125 by:

* Information relating to the organization and function of the National Security Agency has been deleted.

- a. Using data derived from invoices to compile reports;
 - b. Ensuring that finance and accounting offices accurately report all required data, such as early and late payments, discounts available and taken, and payments subject to the Prompt Payment Act;
 - c. Following an approved statistical method to derive accurate data for all reported items.
2. We recommend that the Director, Defense Finance and Accounting Service, ensure that all new or enhanced accounting systems in DoD include specifications for collecting data on payments subject to the Prompt Payment Act, in accordance with reporting requirements in revised Office of Management and Budget Circular A-125.

MANAGEMENT COMMENTS

Comments from the Comptroller of the Department of Defense and the Defense Finance and Accounting Service were responsive. However, management needs to provide us with completion dates for corrective actions. The management response also contained the statement, "Based on DFAS identification of certain statistical inaccuracies, the IG Audit staff agreed to modify the statistics it developed on pages 49, 50, and 77 of the draft." (See Part IV, Management Comments.)

AUDIT RESPONSE

We modified the statistics to provide further details, not because they were inaccurate. Data on pages 49 and 50 of the draft report are shown in Appendixes H and I of this report. Data on page 77 of the draft report have been deleted from this report. Schedules for the aging of late and early payments are in Finding B on pages 12 and 13 of this report.

STATUS OF RECOMMENDATIONS

<u>Response Should Cover:</u>					
<u>Number</u>	<u>Addressee</u>	<u>Concur or Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	<u>Related Issues*</u>
A.1.	Comptroller, DoD			X	IC
A.2.	Comptroller, DoD			X	

* IC = material internal control weakness

B. PAYMENT PROBLEMS

DoD agencies were not fully complying with Public Law 97-177 (amended by Public Law 100-496) and OMB Circular A-125, revised on December 12, 1989. We found that 12 F&AOs periodically made payments late, incurring interest penalties; failed to pay interest on late payments; made payments too early, which increased interest costs due to accelerated borrowing by the U.S. Government; did not take advantage of discounts; and issued payments without proper receiving reports. These conditions occurred because finance and accounting officers did not implement adequate quality control programs; followed procedures designed to avoid late payments, thereby paying too early; and did not maintain adequate documentation for payments. As a result, \$2.6 billion of supplies and services, or 66 percent of the Defense agencies' transactions subject to the Act, were not paid on time. We estimated that interest penalties on late payments, interest paid by the Government as a result of early payments, and forfeited discounts totaled \$17 million for the 6-month period ended March 31, 1990. Using a nonstatistical extrapolation from the sample estimate, we found that DoD could avoid interest and late payment penalties of up to \$204 million in FYs 1992-1997 by improving compliance with prompt payment procedures. Furthermore, \$649.7 million of supplies and services, or 22 percent of transactions subject to prompt payment, were paid without certification that goods were received.

DISCUSSION OF DETAILS

Background. The revised OMB Circular A-125 made each agency head responsible for assuring that payments were timely and interest penalties were paid when required, and gave standards for timely payment under the Act. Payments were due within 30 days after the start of the payment period (or other date if specified by the contract). Timely payments were those made as close as possible to but no more than 7 days before the due date and not after the due date. In the April 1985 version of OMB Circular A-125, the definition of timely payments was similar, but making payments more than 3 days before the due date was prohibited.

According to revised OMB Circular A-125, interest on late payments was to be computed from the day after the due date until the date paid. The original OMB Circular A-125 allowed a 15-day grace period on late payments, so that no interest accrued unless payments were made more than 15 days after the due date. Interest was to be computed at the renegotiation board interest rate, published semiannually by the Secretary of the Treasury.

Revised OMB Circular A-125 provided that discounts should be taken whenever economically advantageous. Economic advantages

were to be determined from "Treasury Financial Manual for Guidance of Departments and Agencies" (Vol. I), Part 6, Section 8040.30, by comparing the effective annual discount rate to the current value of funds.

Revised OMB Circular A-125 required agency heads to ensure that applicable and effective internal controls were established, and required agencies to maintain proper documentation for payments. Agency heads were also required to establish quality control programs to assess the performance of payment systems. The audit approach and statistical sampling plan are detailed in Part I of this report under "Scope." Additional details are provided in Appendix E, "Statistical Sampling Plan and Methodology." Unless specifically stated, the figures in the following discussion are statistical projections.

Analysis of late payments. Interest penalties due on late payments totaled \$8 million, of which only \$3.5 million had been paid (see Appendix G). The agencies underpaid approximately \$4.5 million and overpaid \$7,000. Our projections showed that over 303,000 transactions were paid late (see Appendix H). Based on the actual sample, we found that 67 percent of invoices paid late were paid more than 10 days after the due dates. More than a third were paid over 30 days late.

**AGING OF LATE PAYMENTS FOR
FINANCE AND ACCOUNTING OFFICES VISITED**

	Days Late			
	<u>1-5</u>	<u>6-10</u>	<u>11-30</u>	<u>Over 30</u>
Number	151	57	194	240
Percentage	24	9	30	37

*
*
*

Analysis of early payments. We projected sample data to the Defense agencies' universe of transactions subject to the Prompt Payment Act for the 6 months ended March 31, 1990. Projections showed that 37 percent of all transactions were paid before the due dates, resulting in \$4 million in unnecessary interest paid by the Federal Government (see Appendix I). Paying invoices in advance of their due dates causes the Government to borrow before

* Information relating to the National Security Agency has been deleted.

funds are needed, which increases borrowing costs. Based on the actual sample from activities visited, we found that 71 percent of the invoices paid early were paid more than 5 days early.

**AGING OF EARLY PAYMENTS FOR
FINANCE AND ACCOUNTING OFFICES VISITED**

	<u>Days Early</u>			
	<u>1-5</u>	<u>6-10</u>	<u>11-15</u>	<u>Over 16</u>
Number	214	192	171	152
Percentage	29	26	24	21

One example of early payments was at the Defense Logistics Agency Finance Center (DLAFC) where 62 percent of all sampled transactions were paid early. As a result, accelerated borrowing by the Treasury of the United States resulted in \$.4 million in interest for the 6-month period reviewed. (The \$.4 million is not a statistical estimate and was not used in our projection.) At DLAFC and other DLA sites, overreaction to DLA headquarters' emphasis on avoiding late payments may have contributed to the higher incidence of early payments.

Analysis of discounts forfeited. For the 6-month period, the Defense agencies forfeited an estimated \$5 million in discounts on 116,000 transactions subject to the Act. This represents 61 percent of the number of discounts offered and 50 percent of the discounts' value (see Appendix J). The amended Act changed the start of the discount period from the date the invoice was received by the paying office to the date of the invoice, which shortened the time available for processing discounts. However, we could not establish that this change in the Act caused discounts to be forfeited.

Missing payment records. For DLAFC and the Defense General Supply Center (DGSC), payment records were missing for 69 percent of all transactions (not a statistical projection). At DLAFC, we noted control weaknesses in that access to records was not restricted to authorized personnel and record inventories were not maintained. Since the time of our audit, DLAFC has become the DFAS-Columbus Center, and management has restricted access to payment files to improve control.

At DGSC, the payment files were physically maintained away from the F&AO in the Contract and Procurement Division. We were unable to determine whether the records were lost before or after being transferred to the Contract and Procurement Division.

Missing and improper receiving reports. Appendix L shows a projection of the number of missing or improper receiving reports at each agency visited. At the Defense Communications Agency

Headquarters, 83 percent of the receiving reports were missing or improper. A receiving report was considered improper if the goods or services received were insufficiently identified, or if receipt or acceptance dates were omitted.

At Defense Communications Agency Headquarters, disposition forms were frequently used as receiving reports and were forwarded to the contracting officer's representative (COR) for certification that goods had been received. In many cases, the CORs administered contracts and served as receiving agents for the same contracts. This was an inadequate separation of duties, which constituted an internal control weakness.

Quality control program. DoD agencies gave various reasons for making untimely payments. However, most activities lacked viable quality control programs. The revised OMB Circular A-125 updated policies and procedures to conform to the Act, and added the requirement to establish quality control programs "... to assess performance of payment systems and provide a reliable way to estimate payment performance." Where the number of payment actions is too numerous to permit a total review, gathering data through a statistically valid sample is acceptable to OMB, provided that quality control reviews ensure accuracy and propriety.

In contrast to the statistical projections on late payments observed elsewhere, sample data from DCMR St. Louis, Missouri, indicated that interest charges were negligible. Late payments occurred on only 3 percent of all sample invoices, representing .02 percent of amounts paid. We attributed this low occurrence of late payments to the DCMR's quality control program for payments, which was part of a Productivity Gain Sharing Program. The program gave incentives to F&AO employees or teams of workers for exceptional performance in paying invoices according to the Prompt Payment Act. Of all the sites visited, only DCMR St. Louis had a quality control program in place that met the requirements of revised OMB Circular A-125. Other F&AOs have developed quality control programs, but have not fully implemented the programs.

With the large number of transactions and multiple processing locations in DoD, reliance on occasional audits of prompt payment is not sufficient to spot significant problem areas. A reliable quality control program would enhance the implementation of the Act. The program should assess the performance of accounting clerks and provide a basis for estimating data for the annual prompt payment report. The program should determine which items are subject to prompt payment, and should ensure that:

- o payments are made on time;
- o interest is paid on late payments;
- o discounts are taken when offered;

- o invoices are not paid more than 7 days before the due date;
- o payments are supported with proper receiving reports;
- o internal controls are maintained over the management of payment records; and
- o separation of duties exists between contract administrators and certifying agents.

Savings and cost avoidance. For the 6-month period reviewed, we projected that potential savings of \$17 million could result from improved compliance with prompt payment criteria. This projection includes \$8 million of decreased interest due on late payments (Appendix G), \$4 million of reduced interest costs to the U.S. Government to borrow funds as a result of early payments (Appendix I), and \$5 million of increased discounts (Appendix J). By extending the 6-month projection of the sampled data to the period FYs 1992-1997, the savings potential for the same items is \$204 million, a nonstatistical extrapolation (see Appendix M).

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Comptroller of the Department of Defense strengthen the implementation of the Prompt Payment Act by ensuring that finance and accounting offices fully comply with quality control requirements in Office of Management and Budget Circular A-125, Section 3.e.
2. We recommend that the Director, Defense Finance and Accounting Service, report material internal control weaknesses in payment operations in the agency's annual statement of assurance to the Secretary of Defense.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

Management comments were responsive. However, further comments are required on the monetary benefits and estimated completion date for Recommendation B.1. (See Part IV, Management Comments.)

STATUS OF RECOMMENDATIONS

<u>Response Should Cover:</u>					
<u>Number</u>	<u>Addressee</u>	<u>Concur or Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	<u>Related Issues</u> ^{2/}
B.1.	Comptroller, DoD	X ^{1/}		X	M, IC

^{1/} Monetary benefits only.

^{2/} M = monetary benefits; IC = material internal control weakness

PART III: ADDITIONAL INFORMATION

- APPENDIX A - Prompt Payment Reporting Requirements in OMB Circular A-125
- APPENDIX B - Universe of Commercial Payments by Agency and Activity
- APPENDIX C - Universe of Finance and Accounting Offices Reviewed
- APPENDIX D - Actual Invoices Sampled at DoD Finance and Accounting Offices
- APPENDIX E - Statistical Sampling Plan and Methodology
- APPENDIX F - Understated/Overstated Projections for Comparison to the Defense Agencies' Prompt Payment Reports
- APPENDIX G - Projected Dollar Value of Late Payments for All DoD Agencies
- APPENDIX H - Projected Number of Late Payments for All DoD Agencies
- APPENDIX I - Projected Early Payments for All DoD Agencies
- APPENDIX J - Projected Discounts for All DoD Agencies
- APPENDIX K - Comparison of Audit Projections with Consolidated Defense Agency Prompt Payment Report
- APPENDIX L - Projected Missing or Improper Receiving Reports for DoD Agencies
- APPENDIX M - Summary of Potential Benefits Resulting from Audit
- APPENDIX N - Activities Visited or Contacted
- APPENDIX O - Report Distribution

APPENDIX A. PROMPT PAYMENT REPORTING REQUIREMENTS IN OMB
CIRCULAR A-125 *

The Act requires the Director of OMB to report to Congress by the 120th day after the end of each fiscal year (January 28th), summarizing agency reports and analyzing progress made. In addition, OMB submits the annual prompt payment report to Congress with the President's Budget. Each Federal agency is to report annually to the Director of OMB by November 30th the following information for the prior fiscal year:

- a. Invoices subject to the Prompt Payment Act and OMB Circular A-125:
 - (1) Dollar value of invoices,
 - (2) Number;
- b. Invoices paid after due date:
 - (1) Dollar value of invoices,
 - (2) Number,
 - (3) Interest penalties paid:
 - Dollar amount,
 - Number,
 - Relative frequency,
 - Frequency distribution;
 - (4) Additional penalties paid:
 - Dollar amount,
 - Number,
 - Relative frequency;
 - (5) Reasons why interest or other late payment penalties were incurred in order of frequency of occurrence:
 - Delay in paying office's receipt of:
 - Receiving report,
 - Proper invoice,
 - Purchase order or contract;
 - Delay or error by paying office in:
 - Taking discount,
 - Notifying contractor of defective invoice,
 - Computer or other system processing;
 - (6) Interest and other late payment penalties which were due but not paid (use interest rate in effect on the date obligation accrues):

* Extract from revised OMB Circular A-125.

APPENDIX A. PROMPT PAYMENT REPORTING REQUIREMENTS IN OMB
CIRCULAR A-125 (cont'd)

- Total:
 - Interest dollars;
 - Number;
- Interest was less than \$1.00:
 - Interest dollars;
 - Number;
- Other reason:
 - Interest dollars;
 - Number;
 - Specify reasons;
- c. Invoices paid 1-15 days after due date, where appropriate:
 - (1) Dollar amount,
 - (2) Number,
 - (3) Relative frequency;
- d. Invoices paid 8 days or more before due date (except where cash discounts taken) subject to a determination by the agency head under subsection 4.1. of circular:
 - (1) Dollar amount,
 - (2) Number,
 - (3) Relative frequency;
- e. Invoices paid 8 days or more before due date (except where cash discounts taken) without a determination by the agency head under subsection 4.1. of circular:
 - (1) Dollar amount,
 - (2) Number,
 - (3) Relative frequency;
- f. Discounts:
 - (1) Number available,
 - (2) Number taken,
 - (3) Number not taken because not economically justified,
 - (4) Reasons for failing to take discounts;
- g. For each payment center:
 - (1) Number of payments subject to the Act and the circular,
 - (2) Number and dollar amount of interest penalties paid;
- h. Description of progress made, problems identified, and corrective actions taken in agency vendor payment systems during the fiscal year in implementing the provisions of the Act and OMB Circular A-125 (include a description of agency experience in determining the most appropriate timing for release of payment authorization so that invoices are paid as close as possible to the due date without exceeding it);

APPENDIX A. PROMPT PAYMENT REPORTING REQUIREMENTS IN OMB
CIRCULAR A-125 (cont'd)

- i. Updated description of agency quality control system;
- j. Address and telephone number where the public may obtain updated list of designated agency contacts within payment centers or finance offices to provide assistance in determining the status of invoices and agency schedule for publishing the list.

In order to minimize the cost of reporting, statistical sampling may be used to derive the information above. Agency reports to OMB must be certified by the agency official with line authority over both procurement and payment processes.

**APPENDIX B. UNIVERSE OF COMMERCIAL PAYMENTS REPORTED BY AGENCY
AND ACTIVITY 1/**

October 1, 1989, to March 31, 1990

<u>Activity</u>	<u>Universe Value</u>	<u>Number of Invoices/Vouchers</u>
Defense Logistics Agency	\$31,734,859,187	1,001,273
Defense Communications Agency	*	*
National Security Agency	*	*
Defense Mapping Agency	*	*
Defense Investigative Service	*	*
Defense Nuclear Agency	*	*
Armed Forces Radio & Television Service 2/	*	*
Total	<u>\$34,108,579,035</u>	<u>1,290,139</u>

1/ Defense agencies and activities for which invoices are paid by Military Departments are included in the DoD-wide audit but not in this report.

2/ Armed Forces Radio & Television Service is part of the American Forces Information Service.

* Information relating to the organization and function of the National Security Agency has been deleted

APPENDIX C. UNIVERSE OF FINANCE AND ACCOUNTING OFFICES REVIEWED

October 1, 1989, to March 31, 1990

<u>Activity</u>	<u>Total Commercial Payments Reported ^{1/}</u>		<u>Population from which Sample was Drawn</u>	
	<u>Dollar Value</u>	<u>Number</u>	<u>Dollar Value</u>	<u>Number</u>
DDOU Ogden	\$ 9,256,719	3,114	\$ 9,256,719	3,114
DDRW Tracy	7,030,217	5,563	7,030,217	5,563
DISC Philadelphia	67,606,000	53,633	67,606,000	53,633
DGSC Richmond	123,268,971	131,129	100,807,187	113,446 ^{2/}
DCMR Atlanta	3,115,914,032	59,179	3,115,914,032	59,179
DCMR Philadelphia	4,321,365,454	84,988	4,321,365,454	84,988
DCMR St. Louis	2,499,000,000	28,680	2,499,000,000	28,680
DLAFC	5,524,105,000	288,375	5,260,027,345	92,080 ^{3/}
DCA Arlington	*	*	*	*
DMA St. Louis	*	*	*	*
NSA Ft. Meade	*	*	*	*
AFRTS Burbank	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Total	<u>\$17,409,006,382</u>	<u>727,952</u>	<u>\$17,122,466,943</u>	<u>513,974</u>

^{1/} From finance and accounting offices' records of commercial payments.

^{2/} Commercial payments made from the Standard Automated Materiel Management System Teleprocessing Capabilities accounting system.

^{3/} Sample only; commercial payments made from the Mechanization of Contract Administration Services accounting system.

* Information relating to the organization and function of the National Security Agency has been deleted

APPENDIX D. ACTUAL INVOICES SAMPLED AT DOD FINANCE AND ACCOUNTING OFFICES

October 1, 1989, to March 31, 1990

<u>Agency/Activity</u>	<u>Number of Invoices</u>	<u>Amount</u>
Defense Mapping Agency	262	\$ 880,198
National Security Agency	*	*
Defense Communications Agency Headquarters	262	1,324,719
Armed Forces Radio & Television Service	*	*

Defense Logistics Agency (DLA):

DLA Depots:

Defense Depot Ogden	224	434,214
Defense Distribution Region West (Tracy)	254	226,052

DLA Service Centers:

Defense Logistics Agency Finance Center	222	2,209,181
Defense Industrial Supply Center	152	229,221
Defense General Supply Center	138	1,082,867

Defense Contract Management Regions:

Atlanta	205	4,288,735
St. Louis	205	3,318,349
Philadelphia	*	*
Totals	<u>2,489</u>	<u>\$25,309,936</u>

Note: The samples from Defense Contract Management Region St. Louis and the Defense Logistics Agency Finance Center could not be used for projections.

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY

Sample and Analysis

Overall design of sample. Between October 1, 1989, and March 31, 1990, six Defense agencies that were not serviced by Military Department F&AOs, and one Defense activity serviced by the F&AO at Fort Ord, California, disbursed \$34.1 billion. The Defense Logistics Agency (DLA) comprised \$24.0 billion of the DoD total, the DLA Finance Center (DLAFC) disbursements comprised \$7.7 billion, and the remainder, \$2.4 billion, consisted of disbursements by other DoD agencies/activities. The sample design split the DoD agencies into four groups: DLA, DLAFC, the Armed Forces Radio & Television Service (AFRTS), and all other agencies.

Quantitative Methods Division (QMD) selected four of the remaining non-DLA activities to audit. The Office of the Inspector General, DoD (IG, DoD), audit teams selected transactions at the non-DLA sites except for AFRTS, using a simple random sample. Sample sizes were computed using a 95-percent confidence level. These samples were two-stage designs (the agency within the remaining non-DLA group and the transaction within the agency). AFRTS was treated as a separate category based on the type of data available.

The DLA samples use a three-stage design. The three DLA stages were:

- o activity type (depot, supply center, Defense Contract Management Region [DCMR], and in a separate category, DLAFC);
- o DoD activity within each activity type (two were selected from each class at random); and
- o individual transaction.

At the Defense General Supply Center, the transactions were grouped according to dollar value into four strata; the team selected transactions at random within each stratum. The transactions were vouchers or invoices.

Vouchers and invoices were the most common units for sampling and reporting. Depending on the form and availability of data at each activity, QMD developed a sample design using vouchers or invoices as the unit that was sampled at random. Activities reported their actions in either unit, or occasionally in both. Sources included record books with lists of invoices, contract listings on microfiche, and mainframe computer files. The following table summarizes the characteristics of the sample design.

APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY (cont'd)

SAMPLE TRANSACTION UNITS

<u>Activity</u>	<u>Sampling Unit</u>	<u>Exam Unit</u>	<u>Number of Sample Units</u>	<u>Number of Invoices</u>	<u>Universe Format</u>
DLA:					
DCMR's					
Atlanta	Voucher	Invoice	95	205	Master file
Philadelphia	Invoice	Invoice	159	159	Master file
Centers					
DGSC	Voucher	Invoice	135	138	ADP tape
DISC	Voucher	Invoice	152	152	Master list
Depots					
Ogden	Voucher	Invoice	109	224	Master list
Tracy	Invoice	Invoice	191	254	Master list
Other DoD:					
DCA-HQ	Voucher	Invoice	199	262	Master list
DMA	Voucher	Invoice	222	262	Check register
NSA	*	*	*	*	*
Exceptions:					
AFRTS	Contractor invoice	Contractor invoice	188	201	Contractor log/worksheets
DLAFC	Contract (voucher)	Invoice	98	222	Contract file
DCMR St. Louis	Voucher	Invoice	0	205	ADP Tape

Sampled Universe Scope

The DLA activities used various automated systems for payments, management information systems, and other functions. The auditors selected, by activity type, the system that provided the greatest coverage of potential prompt payment transactions for each type of activity. Audit universes excluded prompt payment transactions that did not fall within the scope of the automated system used to construct the audit universe at an activity.

Special Cases

The DLAFC disbursed funds for two DCMR's, but has become a DoD-level activity under the Defense Finance and Accounting Service (DFAS). It was treated separately from DLA. The IG, DoD, audit team could not obtain a list of payments made during

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY (cont'd)

the audit period, either vouchers or invoices, in any format. The audit team used a microfiche catalog of contracts to select contract numbers at random. The audit team thereafter used the contract files to select up to four invoices (two each for two vouchers), for contracts that had enough documentation to determine whether invoices were subject to the Prompt Payment Act. Most contracts selected had no file, no documents in the file, or insufficient documentation. The audit team also could not obtain definitive information on the total number and dollar value of invoices and vouchers that fell within the audit period.

The microfiche data allowed characterization of the contract universe (11,836 contracts - see next page); they did not, however, provide a direct link to the total DLAFC and DLA transactions and payment values. QMD used the sample data to compute values that are used to calculate DLAFC-wide figures. The figures gave an indication of the situation at DLAFC, but were not a statistical estimate.

The audit team visited DLAFC twice for data collection. On the first visit, the team used the microfiche contract file to collect data on 222 invoices. Files or documentation were missing for most contracts, so the team could not determine whether actions were subject to the Prompt Payment Act. Out of the 481 selections that were initially undetermined, the team was able to determine the status of 52 actions on the second visit: 24 were subject to the Prompt Payment Act and 28 were not. QMD used the ratio of the value of the 24 to the value of the 52 to calculate the Prompt Payment Act portion of the \$7.7 billion that DLAFC reported as a total value of its commercial contracts. The result is not a statistical estimate, but provides the best indication that could be obtained from the data available. QMD used the ratio of 24 to 52 to compute the number of actions subject to the Prompt Payment Act^{1/}. The total number of contracts with missing or incomplete information was 677.

The DCMR St. Louis data did not meet the standards for a random sample and could not be used in the projections. Projections from the DCMR Atlanta sample were based on 156 invoices, after eliminating additional invoices where multiple vouchers were selected from the same contracts.

^{1/} The proportions of the 481 reexamined actions were as follows: 110 were outside the time scope, 319 had no documentation, 24 were subject to the Prompt Payment Act, and 28 were not subject to the Prompt Payment Act.

APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY (cont'd)

ESTIMATED NUMBER OF DLAFC CONTRACTS IN VARIOUS ACCESSIBILITY CATEGORIES

<u>Initial Result of Examination</u>	<u>Sample</u>	<u>Estimate</u>	<u>Margin of Error</u>	<u>Percentage in Group</u>
Total contracts	n/a	11,836	n/a	n/a
Initial NIF ^{2/}	358	4,522	164	38.21
Undetermined	481	6,076	173	51.33
Initial prompt payments examined	98	1,238	65	10.46
Total sample	937	n/a	n/a	n/a

(Margin of error is based on a 95-percent confidence level.)

AFRTS maintains contract information in electronic spreadsheets, one per contractor. QMD sampled the spreadsheets at random and selected payments from the sampled contractors to estimate the value and number of transactions that met conditions of interest to the auditors. The spreadsheets identified the number and dollar value of transactions, and provided an adequate basis for estimates for AFRTS.

Analysis

Sampling unit vs. examination unit. The sampling unit defined the lowest level of transaction that was sampled in a scientific manner. This was the level that QMD used to calculate the estimates for the various attributes of the transactions. Unless invoices could be sampled directly, audit teams selected one to three invoices per voucher in a nonprobabilistic manner (the largest or the most recent). The estimates used the value of the examined vouchers and invoices only, where that could be determined. The DLAFC was an exception, as discussed above. The effect of selecting invoices within vouchers in a nonprobabilistic manner was that the invoices were not statistically representative of the voucher, unless they comprised all the invoices under the voucher. For the remaining vouchers with partial coverage, the analysis excluded the value of the voucher not covered by the examined invoices. This represented one adjustment to the universe.

^{2/} NIF - not in file; no documentation was available for the action.

APPENDIX E. STATISTICAL SAMPLING PLAN AND METHODOLOGY (cont'd)

Missing or incomplete documentation. At several DLA activities, the sample invoices or vouchers frequently had no documentation or partial documentation, or the activity could not provide documentation promptly. QMD used this information to estimate the part of the audit universe at an activity that is subject to the Prompt Payment Act and for which IG, DoD, audit teams could obtain documentation. Several activities had no documentation or had documentation that did not contain data needed to determine whether a payment was subject to the Prompt Payment Act or not. A second visit and request for documentation allowed audit teams to categorize some of the indeterminate transactions as subject to the Prompt Payment Act or not. At the DCMR's, the audit teams requested the highest dollar transactions of those that remained undetermined at the end of the first visit. Estimates of undocumented transactions reported elsewhere reflect only those that remained undetermined or clearly undocumented after a second visit.

Overall analysis plan. The activities were divided into four groups: the DLA activities, AFRTS, DLAFC, and the remaining DoD activities (treated as a group). DCMR St. Louis data were not used in the projections. The analysis segregated the DLAFC estimates into another category, since we had difficulty in obtaining a defined, statistically sampleable universe. The overall totals represented QMD's best estimate of the prompt pay situation in the DoD agencies during the audit period.

**APPENDIX F. UNDERSTATED/OVERSTATED PROJECTIONS FOR COMPARISON TO
THE DEFENSE AGENCIES' PROMPT PAYMENT REPORTS**

October 1, 1989, to March 31, 1990 1/

Reportable Items	Gross Number of Transactions		Gross Dollar Value of Transactions (\$000's)	
	Understated	Overstated	Understated	Overstated
Payments subject to the Act <u>2/</u>	398,087	530,515	\$ 7,832	\$15,359,941
Invoices paid late	280,142	1,648	398,177	213,628
Interest penalties due	282,838	891	5,171	90
Invoices paid early	318,600	0	216,747	423,756
Number of discounts offered	49,620	1,134,111	NR ^{3/}	NR ^{3/}
Number of discounts taken	183	1,086,804	NR ^{3/}	NR ^{3/}
Number of discounts lost	64,418	62,288	NR ^{3/}	NR ^{3/}
Totals	<u>1,393,888</u>	<u>2,816,257</u>	<u>\$627,927</u>	<u>\$15,997,415</u>

1/ Includes seven DoD Agencies but not the DLA Finance Center.

2/ The Act = Prompt Payment Act.

3/ NR = not required in prompt payment report.

APPENDIX G. PROJECTED DOLLAR VALUE OF LATE PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe	Paid Late	Interest On Transactions Paid Late (\$000's)		
			Due	Paid	Not Paid Overpaid
Defense Logistics Agency ^{1/}	<u>\$4,901,550</u>	<u>\$514,553</u>	<u>\$3,074</u>	<u>\$ 360</u>	<u>\$2,714</u>
Armed Forces Radio & Television Service	<u>7,832</u>	<u>1,089</u>	<u>10</u>	<u>1</u>	<u>9</u>
Other Agencies					
Agencies Visited					
Defense Mapping Agency	18,502	5,065	74	81	\$7
National Security Agency Headquarters, Defense Communications Agency	*	*	*	*	*
Agencies Not Visited	*	*	*	*	*
Other Agencies Combined	*	*	* 2/	* 2/	* 2/
DoD Agency-wide Totals	<u>\$5,923,085</u>	<u>\$1,160,766</u>	<u>\$8,016</u>	<u>\$3,525</u>	<u>\$4,498</u>
					<u>\$7</u>

1/ Except for the DLA Finance Center.

2/ The "Other Agencies Combined" estimates relate to the total universe value for all DoD agencies excluding DLA and AFRTS. They are based on the dollar value estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX H. PROJECTED NUMBER OF LATE PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe	Transactions Paid Late	Interest on Transactions Paid Late	
			Paid	Not paid
Defense Logistics Agency ^{1/}	<u>193,308</u>	<u>24,353</u>	<u>2,956</u>	<u>21,397</u>
Armed Forces Radio & Television Service	<u>847</u>	<u>135</u>	<u>13</u>	<u>122</u>
Other Agencies				
Agencies Visited				
Defense Mapping Agency	6,026	3,174	3,220 ^{2/}	*
National Security Agency Headquarters, Defense Communications Agency	*	*	*	*
		2,699	2,343	356
Agencies Not Visited	*	*	*	*
Other Agencies Combined	*	*	<u>3/</u>	<u>3/</u>
DoD Agency-wide Totals	<u>1,038,904</u>	<u>303,320</u>	<u>224,411</u>	<u>78,955</u>

^{1/} Except for the DLA Finance Center.

^{2/} Includes 46 transactions for which interest should not have been paid.

^{3/} The "Other Agencies Combined" estimates relate to the universe transactions for all DoD agencies excluding DLA and AFRTS. They are based on the transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX I. PROJECTED EARLY PAYMENTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

Agency	Estimated Prompt Payment Universe		Paid Early		Interest ^{1/} \$000's
	\$000's	Transactions	\$000's	Transactions	
Defense Logistics Agency ^{2/}	\$4,901,550	193,308	\$1,189,273	101,684	\$3,487
Armed Forces Radio & Television Service	7,832	847	569	202	1
Other Agencies					
Agencies Visited					
Defense Mapping Agency	18,502	6,026	1,622	575	3
National Security Agency	*	*	*	*	*
Headquarters, Defense Communications Agency	34,666	7,772	4,042	1,187	10
Agencies Not Visited	*	*	*	*	*
Other Agencies Combined	*	*	* ^{3/}	* ^{3/}	* ^{3/}
DoD Agency-wide Totals	\$5,923,085	1,038,904	\$1,407,734	380,064	\$4,005

^{1/} Increased interest costs due to accelerated borrowing.

^{2/} Except for the DLA Finance Center.

^{3/} The "Other Agencies Combined" estimates relate to the total universe value or transactions for all DoD agencies excluding DLA and AFRTS. They are based on the dollar or transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX J. PROJECTED DISCOUNTS FOR ALL DOD AGENCIES

October 1, 1989, to March 31, 1990

<u>Agency</u>	<u>Offered</u>		<u>Forfeited</u>		<u>Taken</u>	
	Amount	Number of Transactions	Amount	Number of Transactions	Amount	Number of Transactions
Defense Logistics Agency ^{1/}	\$ 9,407,941	111,004	\$4,637,382	49,541	\$4,770,559	61,463
Armed Forces Radio & Television Service	8,698	47	4,094	13	4,604	34
Other Agencies						
Agencies Visited						
Defense Mapping Agency	8,588	690	8,132	667	456	23
National Security Agency Headquarters, Defense Communications Agency	*	*	*	*	*	*
Agencies Not Visited	*	*	*	*	*	*
Other Agencies Combined	* 2/	* 2/	* 2/	* 2/	* 2/	* 2/
DoD Agency-wide Totals	\$10,032,318	188,911	\$4,999,981	115,603	\$5,032,337	73,308

1/ Except for the DLA Finance Center.

2/ The "Other Agencies Combined" estimates relate to the total universe or transactions for all DoD agencies excluding DLA and AFRTS. They are based on the dollar or transaction estimates for the three agencies visited. There is no specific estimate for "Agencies Not Visited," as no sample data are available for them. However, a statistical projection across the "Other Agencies Combined" group is possible because of the method used to select the sampled agencies for review.

* Information relating to the organization and function of the National Security Agency has been deleted.

**APPENDIX K. COMPARISON OF AUDIT PROJECTIONS WITH CONSOLIDATED
DEFENSE AGENCY PROMPT PAYMENT REPORT**

October 1, 1989, to March 31, 1990

	Per Prompt Payment Report		Audit Projection		Net Amounts (Overstated)/Understated	
	Number of Transactions	Dollar Value (\$000's)	Number of Transactions	Dollar Value (\$000's)	Number of Transactions	Dollar Value (\$000's)
Payments subject to Prompt Payment Act ^{1/}	1,171,332	\$21,275,194	1,038,904	\$5,923,085	(132,428)	(\$15,352,109)
Invoices paid late ^{2/}	24,825	976,217	303,319	1,160,766	278,494	184,549
Interest penalties due	21,372	2,935	303,319	8,016	281,947	5,081
Invoices paid early	61,463	1,614,743	380,063	1,407,734	318,600	(207,009)
Number of discounts offered	1,273,403	NR ^{3/}	188,912	NR ^{3/}	(1,084,491)	NR ^{3/}
Number of discounts taken	1,159,929	NR ^{3/}	73,308	NR ^{3/}	(1,086,621)	NR ^{3/}
Number of discounts lost	113,474	NR ^{3/}	115,604	NR ^{3/}	2,130	NR ^{3/}

(Note: Because understatements and overstatements have been consolidated in this Appendix, the figures shown do not match those shown in Appendix F.)

^{1/} Includes seven DoD Agencies except for the DLA Finance Center.

^{2/} Interest payable of \$1 or more.

^{3/} NR = not required.

APPENDIX L. PROJECTED MISSING OR IMPROPER RECEIVING REPORTS
FOR DOD AGENCIES

October 1, 1989, to March 31, 1990

<u>Agency</u>	<u>Dollar Value</u>	<u>Number of Transactions</u>
Defense Logistics Agency ^{1/}	\$211,846,910	43,201
Armed Forces Radio & Television Service	0	0
Defense Mapping Agency	224,870	391
National Security Agency	*	*
Headquarters, Defense Communications Agency	28,764	5,369
Other Agencies Not Sampled	<u>*</u>	<u>*</u>
Totals	<u>\$649,652,512</u>	<u>226,186</u>

1/ Excludes DLA Finance Center.

* Information relating to the organization and function of the National Security Agency has been deleted.

APPENDIX M. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
A.1.	Internal controls and compliance with regulations. Ensure that finance and accounting offices file reports as required by DoD Manual 7220.9-M, "DoD Accounting Manual."	Nonmonetary.
A.2.	Economy and efficiency. Enhance efficiency by standardizing accounting systems to incorporate prompt payment reporting requirements.	Nonmonetary.
B.1.	Internal controls and compliance with regulations. Improve compliance with the Prompt Payment Act and reduce interest and late payment penalties.	Funds put to better use; \$204 million in FYs 1992-1997. <u>1/</u>
B.2.	Internal controls and compliance with regulations.	Nonmonetary.

1/ A followup audit will be planned to determine whether the implementation of this recommendation has in fact achieved compliance with the Prompt Payment Act and resulted in this magnitude of savings.

APPENDIX N. ACTIVITIES VISITED OR CONTACTED

Defense Agencies

Defense Finance and Accounting Service, Arlington, VA
Defense Finance and Accounting Service, Columbus Center,
Columbus, OH
Defense Information Systems Agency, 1/ Arlington, VA
Defense Logistics Agency, Alexandria, VA
Defense Depot, Ogden, UT
Defense Distribution Region West, Tracy, CA
Defense Industrial Supply Center, Philadelphia, PA
Defense General Supply Center, Richmond, VA
Defense Contract Management Region, Atlanta, GA
Defense Contract Management Region, Philadelphia, PA
Defense Contract Management Region, St. Louis, MO
Defense Mapping Agency, Fairfax, VA
Defense Mapping Agency, Aerospace Center, St. Louis, MO
National Security Agency, Fort Meade, MD
American Forces Information Service, Arlington, VA
Armed Forces Radio & Television Service, Burbank, CA

1/ Referred to elsewhere in this report as the Defense Communications Agency.

APPENDIX O: REPORT DISTRIBUTION

Office of the Secretary of Defense

Comptroller of the Department of Defense

Department of the Army

Department of the Army, Inspector General
Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency

Department of the Navy

Comptroller of the Navy
Assistant Secretary of the Navy (Financial Management)
Auditor General, Naval Audit Service

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Air Force Audit Agency

Defense Agencies

Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, Defense Information Systems Agency
Director, Defense Mapping Agency
Director, Defense Nuclear Agency
Director, Defense Investigative Service
Director, National Security Agency
Director, American Forces Information Service

Non-DoD Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, NSIAD Technical Information
Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Armed Services
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations

APPENDIX O: REPORT DISTRIBUTION (cont'd)

House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations
House Permanent Select Committee on Intelligence

PART IV: MANAGEMENT COMMENTS

Comptroller of the Department of Defense

MANAGEMENT COMMENTS: COMPTROLLER OF THE DEPARTMENT OF DEFENSE



COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON DC 20301-1100

FEB 04 1992

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DoD Draft Audit of Defense Agencies' Compliance with
Prompt Payment Procedures (Project No. OFH-3001)

The joint comments of this office and the Defense Finance
and Accounting Service to the findings and recommendations in
the subject draft report are attached.

The point of contact is Mr. Ken Sweitzer, DPAS-HQ/FCC. He
may be reached at (703) 607-0528.

DB Shycoff

Donald B. Shycoff
Principal Deputy Comptroller

Attachment

MANAGEMENT COMMENTS: COMPTROLLER OF THE DEPARTMENT OF DEFENSE
(cont'd)

Final Report
Recommendation
and Page No.

**DoD Comptroller and
Defense Finance and Accounting Service Comments on
DoDIG Draft Audit of Defense Agencies' Compliance
with Prompt Payment Procedures (Project No. OFH-3001)**

7

FINDING A. Between October 1, 1989, and March 31, 1990, quarterly prompt payment reports submitted to the Comptroller, DoD were overstated by \$16.0 billion and understated by \$627.9 million. These overstatements and understatements consisted primarily of reported payments subject to the Prompt Payment Act, invoices paid late and early, and interest penalties.

COMMENT: Concur. DFAS will issue a policy message instructing all finance and accounting offices to evaluate and improve internal controls over payment operations by issuing payments in accordance with DoD 7220.9-M (DoD Accounting Manual) requirements. Note: Based on DFAS identification of certain statistical inaccuracies, the IG Audit staff agreed to modify the statistics it developed on pages 49, 50, and 77 of the draft.

11

FINDING B-1. The payment of \$2.6 billion was paid early or late, but not within the timeframe specified for payment for supplies and services.

COMMENT: Concur. The DFAS will inform all finance and accounting offices to comply with the payment guidance in DoD 7220.9-M (DoD Accounting Manual). Guidance also will be provided on the establishment of quality assurance programs to assess and improve performance of payment systems.

11

FINDING B-2. Interest penalties on late payments, interest paid by the Government on funds borrowed to make early payments, and forfeited discounts totaled an estimated \$17.0 million for the 6-month period.

COMMENT: Concur. The DFAS will inform all finance and accounting offices of the savings and cost avoidance that could result from improved compliance with prompt payment criteria.

3

FINDING B-3. DoD Components were not implementing internal controls as required by the Federal Managers' Financial Integrity Act.

COMMENT: Concur. The DFAS will emphasize to all finance and accounting offices the need to conform with existing internal control guidance in DoD 7220.9-M (DoD Accounting Manual).

Rec. A.1.
9

RECOMMENDATION 1. We recommend that the Comptroller of the Department of Defense direct paying offices to fully comply with the reporting requirements of the Office of Management and Budget Circular A-125 by:

- a. Using data derived from invoices to compile reports.

MANAGEMENT COMMENTS: COMPTROLLER OF THE DEPARTMENT OF DEFENSE
(cont'd)

Final Report
Recommendation
and Page No.

b. Ensuring that finance and accounting offices accurately report all required data, such as early and late payments, discounts available and taken, and payments subject to the Prompt Payment Act.

c. Following an approved statistical method to derive accurate data for all reported items.

COMMENT: Concur. The Comptroller, DoD, will ask DFAS to reemphasize existing DoD 7220.9-M (DoD Accounting Manual) guidance for all reporting requirements. This re-emphasis will be part of DFAS' Prompt Payment Act compliance improvement efforts over the next 120 days.

Rec. A.2.
10

RECOMMENDATION 2. We recommend that the Director, Defense Finance and Accounting Service ensure that all new or enhanced accounting systems in DoD include specifications for collecting data on payments subject to the Prompt Payment Act, in accordance with reporting requirements in revised Office of Management and Budget Circular A-125.

COMMENT: Concur. As Executive Agent for DoD financial systems, the DFAS is tasked to recommend single migration systems for each business area. Noncompliant systems will be eliminated and enhanced or new contract/vendor payment systems will include specifications for collecting required payment data.

Rec. B.1.
15

RECOMMENDATION 3. We recommend that the Comptroller of the Department of Defense strengthen the implementation of the Prompt Payment Act by ensuring that finance and accounting offices fully comply with quality control requirements in the Office of Management and Budget Circular A-125, Section 3.e.

COMMENT: Concur. The Comptroller, DoD, will ask DFAS to issue guidance reemphasizing the existing policy requirements in DoD 7220.9-M (DoD Accounting Manual). The DFAS also will emphasize quality control efforts as part of this ongoing Prompt Payment Act compliance improvement effort.

Rec. B.2.
15

RECOMMENDATION 4. We recommend that the Director, Defense Finance and Accounting Service report material internal control weaknesses in payment operations in the Agency's Annual Statement of Assurance to the Secretary of Defense.

COMMENT: Concur. The Agency's Annual Statement of Assurance to the Secretary of Defense will include internal control weaknesses in the payment operations which are determined by management to be material.

LIST OF AUDIT TEAM MEMBERS

Nancy L. Hendricks	Director, Financial Management
Raymond D. Kidd	Program Director
Richard A. Levine	Project Manager
Yung K. Chen	Team Leader
Sheela M. Javeri	Team Leader
Ernest R. Taylor	Team Leader
William F. Bazemore	Auditor
Robert L. Hoss	Auditor
Young J. Jin	Auditor
Ronald L. Smith	Auditor
Cordelia A. Williams	Auditor

IMPLEMENTATION OF THE PROMPT PAYMENT ACT

**Report of Audit by
The U.S. Army Audit Agency**



Do not release this report outside the Department of the Army for 60 days from the report date, except to the Office of the Inspector General, Department of Defense. Afterward, release the report only in accordance with Army Regulation 25-55 and Department of the Army Memorandum 36-1.



DEPARTMENT OF THE ARMY
OFFICE OF THE AUDITOR GENERAL
3101 PARK CENTER DRIVE
ALEXANDRIA, VA 22302-1596



22 June 1992

Assistant Secretary of the Army (Financial Management)

This is our report on the Armywide audit of implementation of the Prompt Payment Act. The audit was part of a Defensewide audit, and the results will also be in an overall Defense report to senior management levels.

These are the report's key sections:

- The Summary of the Audit is an overview of what we audited and found.
- General Information tells how we conducted the audit and gives other important information on matters related to the audit.
- The findings in Findings, Recommendations, and Comments detail the conditions we found. They also include our recommendations and your comments.
- The Annexes list the activities included in the audit and others receiving copies of the report.

I appreciate the courtesies and cooperation extended to us during the audit.

for Thomas Dwyer
FRANCIS E. REARDON
The Auditor General

CONTENTS

	Page
Summary of the Audit	
What We Audited	5
Observations	5
Objectives, Conclusions, and Command Responses	5
General Information	
Audit Scope and Methodology	13
Background	14
Responsibilities	15
Findings, Recommendations, and Comments	
A - Invoice Payments	19
B - Prompt Payment Policy	32
C - Prompt Payment Reporting	47
D - Quality Control Program	57
Annexes	
A - Activities Included in the Audit	69
B - Others Receiving Copies of the Report	71

SUMMARY OF THE AUDIT

WHAT WE AUDITED

We audited the Army's implementation of the Prompt Payment Act of 1982, Public Law 97-177, to include the 1988 amendments to the act. The audit was part of a Defensewide audit that the Office of the Assistant Secretary of Defense (Comptroller) requested. The Inspector General, Department of Defense will publish an overall report that includes the results of this audit.

OBSERVATIONS

The Army experienced difficulty in paying many commercial vendors within the time period specified in the Prompt Payment Act. About 40 percent of the \$5 billion of invoices we sampled either were paid early or late. During the 6 months ended 31 March 1990, early and late payments cost the Army and the U.S. Treasury about \$7 million in interest and lost discounts. An additional \$3.7 million in interest should have been, but wasn't, paid because personnel didn't recognize that invoices were paid late. We believe many of the late payments were caused by personnel failing to fully understand that the act has different, and frequently complex, criteria for computing payment due dates for purchases of different types of items.

Also, if payments are to be made by the Prompt Payment Act due dates, personnel in logistical and acquisition activities, as well as finance and accounting, must fully understand the act. If personnel in logistical activities don't fully understand that a payment due date may depend on the day an item is received and they fail to process the receiving report in a timely manner, the vendor will probably not be paid on time. Or if personnel in acquisition activities fail to consider the act and include unrealistic payment terms in a contract, that vendor's invoices probably won't be paid by the required due date. The fact that these activities are frequently physically separated and have different commanders can make it difficult for the Army to pay commercial vendors promptly.

OBJECTIVES, CONCLUSIONS, AND COMMAND RESPONSES

Our overall objective was to determine whether the Army complied with the requirements of the Prompt Payment Act.

- Paid about 40 percent of the invoices either too early or too late.
- Should have paid an additional \$3.7 million in interest on late payments.
- Should have taken \$1.9 million of cost-effective discounts.

Army policy needed to be changed so that:

- Payments for preapproved medical care and commissary-food items (specifically meat) are made in accordance with the Prompt Payment Act.
- Payments to utility companies are made in accordance with Office of Management and Budget's regulation on the Prompt Payment Act (Circular A-125, Prompt Payment).
- Payments to foreign vendors, on purchases for foreign military sales cases, and by the Army on construction contracts written by State National Guard Bureaus are considered subject to the Prompt Payment Act.

Command Response: The Office of the Assistant Secretary of the Army (Financial Management) agreed with most of the recommendations and said that corrective action had been or would be taken. However, the Office of the Assistant Secretary of the Army proposed an alternative to revising Army policy so that payment by the Federal Government directly to contractors on contracts written by the State National Guard Bureaus are made subject to the Prompt Payment Act (Recommendation B-8). But the Office of the Assistant Secretary of the Army didn't show how or when the alternative action would be implemented. For Recommendations A-1 through A-6, the Office of the Assistant Secretary agreed with the potential monetary benefits for interest paid on late payments and for interest costs on early payments. However, the Office of the Assistant Secretary didn't fully agree with potential monetary benefits associated with discounts.

(Our recommendations and command comments are in Findings A and B.)

Objective: To evaluate the accuracy of the Army's Prompt Payment Act report.

audits, inspections, and reviews to be adequate to fulfill the requirement for a quality control program. But there were weaknesses in how the existing programs were carried out. Consequently, personnel responsible for the existing programs hadn't identified the full extent of the Army's noncompliance with the act.

Command Response: The Office of the Assistant Secretary of the Army (Financial Management) agreed with the recommendations and said that corrective action had been or would be taken.

(Our recommendations and command comments are in Finding D.)

Objective: To evaluate the effectiveness of the Army Internal Management Control Program as it relates to paying vendors' invoices that are subject to the Prompt Payment Act.

Conclusion: The Army Internal Management Control Program, as it relates to paying vendors' invoices that are subject to the Prompt Payment Act, wasn't fully effective. Finance and accounting offices generally had implemented most administrative requirements of the program. Internal control managers had been appointed, and key personnel had internal control responsibilities included in their job performance standards.

The DA-developed checklist included appropriate test questions to evaluate key internal controls related to paying vendors' invoices that are subject to the act. Managers completed the required checklist, but they didn't identify material weaknesses in procedures used for paying vendors' invoices because the necessary reviews and tests of key internal controls weren't performed.

We reviewed key internal controls necessary to answer our objectives. We found material internal control weaknesses in most of the areas audited. In the Findings, Recommendations, and Comments section of this report, we discuss the weaknesses. The senior internal management control administrator should track and report these weaknesses according to current guidance for the program.

GENERAL INFORMATION

AUDIT SCOPE AND METHODOLOGY

We performed the audit:

- From June 1990 through January 1992.
- In accordance with generally accepted government auditing standards and included the tests of internal controls that we considered necessary under the circumstances.

The audit covered transactions representative of operations current at the time of the audit.

We performed the audit at the Defense Finance and Accounting Service-Indianapolis Center (formerly the Office of the Deputy Assistant Secretary of the Army for Finance and Accounting and U.S. Army Finance and Accounting Center), Forces Command, U.S. Army Training and Doctrine Command, U.S. Army Materiel Command, U.S. Army Corps of Engineers, U.S. Army Health Services Command, Information Systems Selection and Acquisition Agency, and at the subordinate installations and activities listed in Annex A.

We compared the Army's guidance as published in AR 37-107 (Financial Administration-Commercial Accounts Payable) and a 1990 Letter of Instruction and Desk Reference Guide with the Prompt Payment Act and Office of Management and Budget's implementing regulation on that act. We discussed any apparent deviations between the Army's guidance and the act and implementing regulations with personnel at the Indianapolis Center.

We used statistical sampling techniques to determine if the Army's finance and accounting offices paid commercial vendors in accordance with the Army's published policy. Using statistical sampling, we selected 5 finance and accounting offices; and, at those 5 offices, we statistically sampled 920,000 invoices paid to commercial vendors during the 6 months ended 31 March 1990. We reviewed the vendors' invoices, the Army's receiving reports, and the Army's payment documents.

We compared the results of our statistical sample of payments made during the 6 months ended 31 March 1990 to the Army's Prompt Payment Act report that showed the number and dollar value of payments made subject to the act, early and late payments, discounts offered and taken, and interest penalties owed.

We analyzed and compared the Army's existing programs of audits, inspections, and reviews to the requirements

RESPONSIBILITIES

On 22 January 1991, DOD established the Defense Finance and Accounting Service-Indianapolis Center. The Indianapolis Center assumed the responsibilities of the Office of the Deputy Assistant Secretary of the Army for Finance and Accounting and the U.S. Army Finance and Accounting Center. These responsibilities include:

- Providing policy and guidance on paying commercial vendors in accordance with the Prompt Payment Act.
- Compiling the prompt payment data submitted by the Army's accounts offices.
- Preparing the Army's consolidated annual Prompt Payment Reports.

In addition; on 18 January 1991, U.S. Army Finance Command was established as a field operating agency of the Office of the Assistant Secretary of the Army (Financial Management). Finance Command is responsible for providing overall finance and accounting support to the Army and liaison with the Finance Center.

Among their many responsibilities, Finance Command personnel provide advice and management information to the Assistant Secretary of the Army (Financial Management) and interact with various organizations on the adequacy of finance and accounting policies, accounting systems, and reporting requirements.

The Assistant Secretary of the Army (Financial Management) monitors the operations of local finance and accounting offices to assure compliance with policy and guidance.

FINDINGS, RECOMMENDATIONS, AND COMMENTS

FINDING A: INVOICE PAYMENTS

**For the Assistant Secretary of the Army
(Financial Management)**

SUMMARY

Finance and accounting offices paid only about 60 percent of vendor invoices within the time period specified for payment in the Prompt Payment Act.

Using statistical sampling techniques, we reviewed about 920,000 invoices (totaling about \$5 billion) that finance and accounting offices paid during the 6 months ended 31 March 1990. The offices paid about \$2.5 billion on the 367,000 invoices that were paid either too early or too late and didn't take cost-effective discounts of \$1.9 million on about 27,000 invoice payments.

Finance and accounting offices paid invoices later or earlier than required during the 6 months ended 31 March 1990 and didn't take cost-effective discounts because:

- Voucher clerks didn't correctly apply the Army's policy guidance for paying invoices.
- Finance and accounting offices didn't adequately train clerks on the Army's prompt payment policy.
- The Army hadn't properly educated personnel on the requirement to fully comply with the act.
- Finance and accounting offices and functional activities didn't adequately coordinate to make sure payments would be made on time.

As a result, the Army paid \$1.7 million in interest costs because of late payments and lost \$1.9 million in discounts not taken. And the U.S. Treasury incurred \$3.4 million in unnecessary interest cost because of the Army's early payments. The Army could have avoided these total costs of about \$7 million (\$14 million annually and \$84 million over the 6-year period of the Future Years Defense Plan) through proper adherence to the provisions of the act. Moreover, the Army should have paid an additional \$3.7 million in interest penalties on payments it didn't realize were late. And it could have paid additional penalties on about 35 percent of the late payments that were subject to the 1988 amendments if the vendors involved had asked for it.

certifying officers with the approval of a finance and accounting officer.

DISCUSSION

In this section we discuss:

- Payments made to business concerns.
- Changes needed to comply with the act.

Payments Made to Business Concerns

Finance and accounting offices weren't paying business concerns in accordance with the Army's prescribed policies and procedures. Some of the Army's policies and procedures deviated from those prescribed in the act and Circular A-125. (See Finding B.)

During the 6 months ended 31 March 1990, the finance and accounting offices reported paying about \$10.9 billion on 2 million invoices, of which \$7 billion on 1.8 million invoices was subject to the act. Reimbursements to individuals and some other expenses aren't subject to the act; they aren't considered payments to business concerns.

We used statistical sampling techniques to review the timeliness of about 920,000 invoice payments totaling about \$5 billion and determined that only about 60 percent had been paid within the time specified by the act. (We excluded from our review about 880,000 invoices, that totaled about \$2 billion, on U.S. Army Corps of Engineers civil works and that was paid for with non-Army funds and commercial transportation that was paid for centrally by the Finance Center.)

Our review showed that the Army's reports of early and late payments were considerably understated. The following chart compares the number of invoices that the Army reported as paid early and late with the numbers that we projected for the 920,000 invoice payments that we reviewed.

The finance and accounting offices hadn't taken about \$1.9 million of cost-effective discounts that had been offered on about 27,000 invoices. (As discussed in Finding C, some finance and accounting offices omitted from their prompt payment reports the number and dollar amount of invoices that were paid subject to the act. As a result, our projections of late and early payments and lost discounts are understated.)

Late Payments

The finance and accounting offices actually paid late about 254,000 (28 percent) invoices with a total value of about \$1.1 billion. The finance and accounting offices should have paid about \$5.4 million of interest on those late payments. But only about \$1.7 million had been paid. About 35 percent of the late payments were made subject to the 1988 amendment, and the Army's liability was substantially increased by the additional penalty provision in the 1988 amendments. Over the 6-year period of the Future Years Defense Plan, the Army would incur about \$20.4 million of avoidable interest costs on late payments.

Early Payments

Finance and accounting offices spent about \$1.4 billion on the 113,000 invoices (12 percent) that were paid too early. To obtain the \$1.4 billion in funds, the Treasury either had to reduce the cash maintained in interest-bearing bank accounts or had to borrow the funds. This caused the Treasury to incur about \$3.4 million in unnecessary interest costs or lost interest. Over the 6-year period of the Future Years Defense Plan, the Army would cause the Treasury to incur about \$40.8 million in unnecessary interest costs or lost interest.

Discounts

Finance and accounting offices hadn't paid about 75,000 invoices in time to take advantage of discounts totaling about \$2.1 million. However, the offices reported that only about 12,000 discounts were lost. We found that about 27,000 cost-effective discounts, totaling about \$1.9 million, were lost because personnel weren't prompt in determining that a discount was offered. The remaining 48,000 invoices, totaling about \$200,000, were valued at less than \$10 each and special processing may have been required to pay them during the discount period. And Army policy didn't require reporting of lost discounts of \$10 or

Providing Adequate Training to Finance and Accounting Office Voucher Clerks

Voucher clerks at finance and accounting offices weren't being adequately trained to accurately determine due dates so business concerns would be paid in accordance with the act. Most of the clerks had received only on-the-job training. Thus, the clerks were being trained by personnel who may not fully understand how to properly determine payment due dates.

The numerous payments made contrary to the act show that many clerks weren't aware of the various, complex rules for correctly computing payment due dates. For example, the act requires that the due date for meat and meat products be based on the date that delivery occurs. But the key date for most other items is the date an invoice is received. Another example is the 1988 amendment that established different rules for determining due dates on contracts awarded and options renewed after 1 April 1989. After that date, the clerks had to know and follow two different sets of rules for computing due dates.

Personnel at the Finance Center recognized that voucher clerks needed additional training. And the U.S. Army Soldier Support Institute awarded a contract to develop computer software modules to be used in training voucher clerks. The module on prompt payment rules included instructions and examples on:

- Calculating payment due dates.
- Determining the cost-effectiveness of discounts.
- Computing interest penalties.

Since that module will be used to train the clerks on many of the deficiencies we identified, we believe finance and accounting offices should be required to use the module as part of a formal training program. However, as discussed in Finding B, the Army's policy on paying vendor invoices must be revised to fully comply with the Prompt Payment Act. After the Army's policy is revised, the Support Institute will need to update the training module.

We address the actions to improve training of voucher clerks in Recommendations A-2 and A-3.

- The computer system for paying meat and meat-food products automatically increased by 5 days the 7 days permitted by the act.

We believe operating personnel would be more apt to pay the interest owed if they understood that Congress passed the act to lower acquisition costs. Congress believed increased competition would result in lower bids. But we found no Army guidance or policy statements that explained this intent to operating personnel, and operating personnel didn't seem familiar with Congress' intent.

We address in Recommendations A-4 and A-5 the actions needed to explain to personnel the intent of the act and to stress that interest must be paid.

Coordination

For the Army to fully comply with the act, increased coordination is needed between the paying finance and accounting offices and other activities involved in the payment process.

Since 1988, the Army has recognized that finance, logistics, and acquisition personnel must closely coordinate if payments are to be made in accordance with the act. After the Army paid \$2.5 million in interest during FY 88, the Office of the Deputy Assistant Secretary of the Army for Finance and Accounting (now part of the Finance Center) proposed that personnel from the Army's finance, logistics, and acquisition communities form a task force to study accounts payable. The task force recommended closer coordination between finance, logistics, and acquisition activities.

We found that the coordination recommended by the task force was still not occurring. Payments contrary to the act were made when:

- Voucher clerks weren't furnished receiving and acceptance reports in a timely manner; this delayed payments. But the clerks infrequently contacted receiving personnel to obtain the necessary reports.
- Receiving personnel weren't aware of the requirement to submit necessary receiving and acceptance reports to finance and accounting.
- Commanders weren't notified that receiving and acceptance reports were being furnished late to finance and accounting offices.

- Use suspense systems to make payments on the appropriate date.
- Pay interest if an invoice is paid late because it's consolidated for payment with other invoices.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that it issued a revised AR 37-1, dated 30 April 1991. Chapter 20, Accounts Payable, of the revised regulation reiterates the importance of determining the correct due date, making payments on time, or including interest if the payment is made late. It also stresses the importance of date-stamping the invoice when it is received in the designated billing office. The Commercial Accounts Processing System is designed to compute the correct due date, prepare letters of request for receiving reports upon receipt and input of a proper invoice, compute interest if the payment is to be late, and suspense the voucher for payment on the correct due date. Furthermore, Defense Finance and Accounting Service will standardize and consolidate all policy and procedures related to the Prompt Payment Act.

- A-2 Recommendation:** Request the Soldier Support Institute to revise its training module on the Prompt Payment Act because of the necessary changes in Army policy.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that the Soldier Support Institute is currently providing the Accounting Policy Division, Finance Center, a copy of each accounts payable training module for review and correction before final production. All necessary corrections will be made and included in the final version, scheduled for release during June 1992. Also, the module is designed to allow updating as required. Furthermore, the Office of the Assistant Secretary of Defense (Comptroller) is studying the possibility of consolidating all finance and accounting training.

- A-3 Recommendation:** Require finance and accounting offices to include the Support Institute's module in a training program for voucher clerks.

A-6 Recommendation: Issue guidance to finance and accounting offices on the need to increase coordination between themselves and logistics offices, acquisition offices, and certifying officers.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that Chapter 20 of revised AR 37-1 (dated 30 April 1991) recommends a close working relationship between the finance and accounting officer, contracting officer (acquisition), the receiving activities (logistics), and the certifying officers to make sure receiving reports and procurement documents are received expeditiously.

Potential Monetary Benefits: The Office of the Assistant Secretary of the Army (Financial Management) agreed with \$61.2 million of the potential monetary benefits--\$40.8 million in annual interest costs on early payments and \$20.4 million in interest costs on late payments. However, the Office of Assistant Secretary of the Army didn't fully agree with the \$22.8 million in benefits that would occur from stopping the loss of offered discounts. The office thought this was the maximum amount since some invoices were received too late to be processed or were not cost-effective to process due to special handling requirements.

Agency Evaluation of Command Comments: We believe the reported \$22.8 million in potential benefits for lost discounts of over \$10 is valid and achievable. We found discounts were being lost because personnel weren't making a timely determination that one was offered. And adoption of our recommendations will make sure that all payments are made in a more timely manner, thus providing greater assurance that offered discounts are taken.

- All payments except for a few specifically designated ones are subject to the act.
- Specific criteria should be followed to determine when payment should be made.
- Payment must be made on time or interest should be paid.
- Necessary instructions should be issued.

Army Guidance

The Office of the Assistant Secretary of the Army (Financial Management) established and issued the Army's prompt payment policy. This policy--found in AR 37-107 (Accounts Payable), messages, and an August 1990 Letter of Instruction and Desk Reference Guide that summarizes numerous earlier messages--instructs Army personnel on specific policies and procedures.

DISCUSSION

In this section we discuss:

- Computing due dates on payments to civilian medical sources.
- Making payments to utility companies.
- Determining payment terms for commissary resale items.
- Excluding payments that should be subject to the Prompt Payment Act.

Computing Due Dates on Payments to Civilian Medical Sources

The Army's policy doesn't require that payment due dates on invoices received from civilian medical services for preapproved care be computed in accordance with the act. The act specifies that payment due dates will be computed from the date an invoice is supposed to be received. Instead, the Army's policy for computing the due dates on medical invoices results in the computation of a different and later payment due date that is 30 days after the date the invoice is approved for payment. This policy applies to all invoices for medical care, although some of the medical care was preapproved by either medical personnel or

amendment, the complaints received from civilian medical sources about late payments, and the reports of collection actions taken against soldiers because of late payments, Finance Center personnel proposed in 1989 to change the policy. The changed policy would have resulted in the due date being 30 days from the later of receipt of a bill in the proper billing office or 7 days after performance of the service.

U.S. Army Health Services Command in October 1989 disagreed with the proposed policy change and stated:

A claim by civilian or military personnel for medical care at government expense does not become an entitlement until a determination is made by a government representative. The determination involves several details that take time to gather. Until a claim is deemed to be an entitlement, no government liability exists

After reviewing the comments from Health Services Command, Finance Center personnel did not change the policy. They decided the civilian or military personnel receiving the care had entered into a contract with the civilian medical sources and the Army had no contract until entitlement was determined. Therefore, the Army didn't have an obligation to pay the claim until a medical person determined payment would be made.

Finance Center personnel made the decision without contacting either DOD--who had determined in 1983 that medical payments were subject to the Prompt Payment Act--or the Office of The Judge Advocate General. The Office of The Judge Advocate General told us that the time period for computing due dates on preapproved care--supplemental and routine--should begin with receipt of the caregiver's bill. For emergency care which isn't preapproved, the Office of The Judge Advocate General stated that the time period for computing the due date should start after the appropriate government personnel had received and adjudicated the bill to be a proper debt of the government.

Procedures for Processing Invoices Received from Civilian Medical Sources

Health Services Command's procedures for processing invoices received from civilian medical sources were consistent with the Army's policy and didn't consider the requirements of the 1988 Prompt Payment Act or the fact that some care had been preapproved.

- At one facility, we reviewed 124 invoices for supplemental care and determined at least \$118 in interest should have been but wasn't paid on invoices that were paid late. And 82 of the 124 invoices hadn't been date-stamped when they were received, although the act requires them to be date-stamped.
- Another facility had a backlog of about 900 invoices totaling about \$254,000. But no matter how long the facility takes to approve the invoices for preapproved care, interest won't be paid because of the Army's policy.

We address the actions to improve the payments to civilian medical sources in Recommendations B-1 and B-2.

Making Payments to Utility Companies

Army Policy

The Finance Center's August 1990 Desk Reference Guide stated that payments to utilities weren't subject to the act and prompt payment interest didn't have to be paid. This policy was issued to simplify prior complex guidance that was to be used to determine whether utility payments were or were not subject to the Prompt Payment Act. We sympathize with the desire to simplify the guidance, but we believe that the August 1990 policy is contrary to Circular A-125 and Comptroller General decisions on utility payments.

Office of Management and Budget Guidance

Circular A-125 gives the following guidance on utility payments:

Where agencies acquire utility services under terms required by the government authorities not subject to the act (for example tariffs) this circular does not apply. If agencies acquire these services through contracts or other written requests, payment terms should be specified and will prevail. If there is no contract or the contract is silent about payment terms, the applicable tariff prevails.

The additional penalty does not apply to the payment of utility bills because late payment penalties for these bills are determined through the rate-setting process.

Personnel in the activity's finance and accounting office agreed that the amounts had not been paid. They thought it would be too time-consuming and difficult to determine if prompt payment rules applied, as defined in Circular A-125 and the Comptroller General's decisions. Also, Training and Doctrine Command and another major command have instructed that late payment penalties should not be paid.

We address the actions necessary to improve the payments for utilities in Recommendations B-3 and B-4.

Determining Payment Terms for Commissary Resale Items

Finance offices weren't paying within the time specified in the act for some items purchased for resale in Army commissaries.

Statutorily Specified Payment Periods

Because the government requires that suppliers provide products at prices as advantageous as those charged to the private sector, Congress wrote the Prompt Payment Act with some specific payment terms for items purchased for resale in commissaries. Here are the specific payment dates in the 1988 amendments:

- Meat and meat-food products must be paid 7 days after the date of delivery.
- Perishable agriculture products must be paid no later than the 10th day after delivery, unless the contract specifies another date.
- Dairy products must be paid 10 days after receipt of a proper invoice.

Army Policy

The Army's policy deviates from these mandated payment terms. Here is the guidance in the August 1990 desk reference guide for paying meat and meat-food products, perishable agriculture, and dairy products:

- Meat and meat-food products. To avoid rewarding the vendor with interest when payments could not be made on time because the vendor did not send an invoice, do not pay interest on payments for meat and meat-food products which were late because of nonreceipt of an invoice.

to the delivery period. The instructions required the contract to indicate vendor payment based on a delivery ticket and to authorize mail time. Starting on 1 September 1990, the instructions were modified so the commissary wouldn't mail the invoice to the paying office. This meant the payment due date would start on whichever was later, the final date of the billing period or the receipt of a proper invoice at the designated billing office. Use of a later date than the date of delivery directly contradicts Office of Management and Budget guidance and statutorily mandated payment periods.

In Recommendation B-5 and B-6, we address the actions needed to make the Army's payment on items purchased for resale in the Army's commissaries conform to the statutorily mandated time periods.

Excluding Payments That Should be Subject to the Prompt Payment Act

We identified three types of payments that should have been, but weren't, subject to the Prompt Payment Act:

- Payments on foreign military sales cases.
- Payments by the Federal government on contracts issued by State National Guard Bureaus.
- Payments to foreign vendors.

The Finance Center's guidance did not specifically state that payments on foreign military sales cases were covered by the Prompt Payment Act, and the other two types of payments were excluded from coverage.

Payments on Foreign Military Sales Cases

During the 6 months ended 31 March 1990, one of the U.S. Army Materiel Command's activities excluded from Prompt Payment Act coverage more than \$50 million of payments on foreign military sales cases.

The requirement to pay interest on late payments on foreign military sales cases is shown in AR 37-80 (Finance and Accounting Support for the Army's Security Assistance Programs) and the Foreign Military Sales Financial Management Manual. However, we believe the fact that such payments were not specifically mentioned as being subject to the Prompt Payment Act in the Finance Center's guidance contributed to the one activity excluding them from prompt payment.

Clause 32.901, dated 31 March 1989, that states, "The interest penalty provisions . . . do not apply to contracts awarded to foreign vendors outside the United States for work performed outside the United States."

The Finance Center's August 1990 Desk Reference Guide stated payments to foreign vendors made outside the United States weren't subject to the Prompt Payment Act. But in December 1989, the Office of Management and Budget published the following guidance that shows payments to foreign vendors performing work outside the United States for the United States should be considered subject to the Prompt Payment Act:

We have conferred with the Federal Acquisition Review Counsel, the Office of the U.S. Trade Representative, and a number of affected agencies and concluded that the proposed exclusion should be removed to avoid possible discrimination on the basis of nationality.

Based on this December 1989 guidance, a revision of the Federal Acquisition Regulation should be requested and guidance issued making payments to foreign vendors subject to the Prompt Payment Act.

We address the actions to make these payments subject to the Prompt Payment Act in Recommendations B-7, B-8, and B-9.

RECOMMENDATIONS AND COMMENTS

B-1 Recommendation: Revise the Army's policy for computing the payment due dates on invoices for preapproved care received from civilian medical sources. Specifically require that the payment due date on preapproved care be based not on the date when a decision is made to pay but on one of the following:

- The date the invoice is received in the proper office or the seventh day after the service is completed, whichever is later.
- The date placed on the invoice by the civilian medical source if the invoice is not date-stamped when received in the proper office.

Also specify that interest must be paid when payment can't be made by the due date.

B-4 Recommendation: Revise the Army's policy on utility payments to agree with the current Office of Management and Budget guidance.

B-5 Recommendation: Revise the Army's policy to require the payment due dates for meat and meat-food products, perishable agriculture, and dairy products be computed as specified in the Prompt Payment Act.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed to Recommendations B-4 and B-5 and stated that the revised Army policy was promulgated in AR 37-1, Appendix G, Prompt Payment Act Desk Reference Guide. This guidance was dated 30 April 1991 and published and distributed on 5 August 1991.

B-6 Recommendation: Inform Troop Support Agency that its payment policies and contract terms should be consistent with the Army's revised policy for computing payment due dates for meat and meat-food products, perishable agriculture, and dairy products.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that the revised Army policy was provided to Troop Support Agency in AR 37-1, Appendix G. This guidance was dated 30 April 1991 and published and distributed on 5 August 1991. Troop Support Agency was also informed on 24 September 1991 that any policy promulgated by its headquarters would have to be consistent with the Army regulation.

B-7 Recommendation: State in Army policy that payments on foreign military sales cases are subject to the Prompt Payment Act.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that AR 37-1, Chapter 35, reiterates that foreign military sales cases are subject to the Prompt Payment Act. This guidance was dated 30 April 1991 and published and distributed on 5 August 1991.

FINDING C: Prompt Payment Reporting

**For the Assistant Secretary of the Army
(Financial Management)**

SUMMARY

The Army did not report accurate data on its compliance with the Prompt Payment Act. The Army's Prompt Payment Act report, as of 31 March 1990, misstated the number and dollar value of (i) payments subject to the act and payments made early and late, (ii) discounts offered and discounts not taken, and (iii) interest penalties owed. The report was inaccurate primarily because:

- Finance and accounting offices didn't consistently follow Army guidance in processing invoices for payment.
- Army's policy for paying vendor invoices didn't fully comply with the act.
- Interest penalties paid because of late payments, but settled under the Contract Disputes Act, weren't reported.
- Guidance on preparing the report did not require disclosure of the total amounts of discounts offered and discounts not taken.
- Major commands did not closely review the completeness and accuracy of prompt payment data submitted by installation finance and accounting offices.

Consequently, the Army made management decisions based on inaccurate information and reported inaccurate information to DOD.

Our recommendations to correct these conditions start on page 55.

BACKGROUND

Congressional Interest

The Prompt Payment Act requires the Office of Management and Budget to provide Congress a report on the Federal Government's compliance with the act. In turn, each

DISCUSSION

In this section we discuss:

- Invoice payments made contrary to the Army's guidance.
- Payments made based on Army policy that deviated from the Prompt Payment Act.
- Guidance on reporting interest penalties paid under the Contract Disputes Act.
- Guidance on reporting discounts offered and discounts not taken.
- Reviews of prompt payment data reported by installation finance and accounting offices.
- Impact of policy and guidance on future prompt payment reports.

Invoice Payments Made Contrary to the Army's Guidance

Finance and accounting offices frequently made invoice payments contrary to the Army's guidance. Voucher clerks computed payment due dates inaccurately and paid invoices before and after the computed due dates. Finance and accounting officers did not detect the errors and, consequently, compiled and reported inaccurate performance data.

In Finding A, we projected that by not paying invoices in accordance with the Army's guidance, finance and accounting offices inaccurately reported performance data in their 31 March 1990 Prompt Payment Act reports. They understated by about:

- \$1.4 billion the amount of invoices paid early.
- \$967 million the amount of invoices paid late.
- \$3.7 million the interest penalties owed.

Our recommendations for making sure vendors' invoices are paid in accordance with the Prompt Payment Act are in Finding A. Our recommendations for establishing an effective quality control program to assess whether the payments are made accurately are in Finding D.

Payments to Foreign Vendors

The Army's policy excluded payments to foreign vendors from coverage by the act. And this resulted in the Prompt Payment Report misstating the number and dollar value of payments made subject to the act, made early and made late, and of interest penalties owed. We could not estimate the number and dollar value of these payments.

Payments on Foreign Military Sales Cases

The Army's prompt payment guidance didn't specifically state that payments made on foreign military sales cases should be made subject to the act, and those payments were apparently not reported as covered. At least one finance and accounting office reported about \$50 million of such payments made during the 6 months ended 31 March 1990 weren't subject to the act. For the 6-month period ended 31 March 1990, the Army made payments of about \$932 million on foreign military sales cases; but the installation finance and accounting offices did not report paying any late interest penalties on foreign military sales case payments. Based on the one finance and accounting office not reporting the payments and none of the finance and accounting offices reporting any interest paid, none of the millions may have been reported as subject to the act.

Payments on Contracts Written by State National Guards

Some U.S. Army Property and Fiscal Offices did not consider payments that Army finance and accounting offices made directly to contractors on contracts written by State National Guards as subject to the Prompt Payment Act. For the 6 months ended 31 March 1990, one property and fiscal office reported about \$1.3 million of payments as subject to the act. During the same period, two other offices didn't report about \$7.3 million of payments as subject to the act.

Our recommendations for revising Army policy so vendor invoices are paid in accordance with the act are in Finding B.

Guidance on Reporting Interest Penalties Paid Under the Contract Disputes Act

The Army did not report late-payment penalties paid under the Contract Disputes Act--even when the penalties resulted from noncompliance with the Prompt Payment Act.

for payment within 10 days, and the invoice takes 4 days to arrive by mail, the invoice must be paid within 6 days or the discount cannot be taken.

In response to the change in the discount start date, on 30 December 1988, personnel at the Finance Center instructed finance and accounting offices not to report discounts as offered and lost when:

- The discount amount was \$10 or less and special handling was required to process the payment within the discount period.
- The supporting documents necessary to make the payment within the discount period reached the finance and accounting offices 3 days or less before the discount period ended.

This guidance was issued to prevent the change in the discount start date from causing an increase in the reported amount of discounts not taken. We agree that the change in the discount start date would increase the number of discounts offered but not taken. But arbitrarily changing the rules for reporting discounts distorts the Army's reported ability to comply with the act. We could not estimate the amount which discounts offered and discounts lost were understated as a result of the Army's change in reporting discounts.

We address the actions to report accurately the amount of discounts offered and discounts not taken in Recommendation C-2.

Reviews of Prompt Payment Data Reported by Installation Finance and Accounting Offices

Accounts offices servicing major commands didn't closely review for completeness and accuracy the prompt payment performance data submitted by installation finance and accounting offices. To assist the accounts offices in making their reviews, personnel at the Finance Center distributed a checklist for reviewing and testing the accuracy and completeness of the yearend reports.

We reviewed the procedures followed by four accounts offices to consolidate, reconcile, and summarize the 31 March 1990 reports submitted to them by installation finance and accounting offices. Three accounts offices hadn't used the checklist to thoroughly review and analyze the quarterly reports to make sure they were complete and accurate. As a result, those accounts offices didn't identify errors and omissions that distorted the reported payment data, such as:

RECOMMENDATIONS AND COMMENTS

C-1 Recommendation: Direct finance and accounting offices to determine and include in Prompt Payment Reports those interest penalties paid under the Contract Disputes Act that resulted from late payment of vendor invoices.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) didn't agree and stated that Office of Management and Budget Circular A-125 does not require reporting of penalty payments made under the Contract Disputes Act and specifically states, "Interest penalties under the Prompt Payment Act will not continue to accrue:

- after the filing of a claim for such penalties under the Contract Disputes Act of 1978, or
- for more than one year."

Agency Evaluation of Command Comments: Until interest penalties paid under the Contract Disputes Act are reported on the Army's Prompt Payment Act reports, personnel can deliberately understate the Army's payment problems. If personnel deliberately don't pay interest owed (some personnel did just that, as we reported in Finding A-Invoice Payments), and the vendor claims the interest under the Contracts Disputes Act, that interest won't be included in the Army's Prompt Payment Reports.

C-2 Recommendation: Require finance and accounting offices to include in Prompt Payment Reports all discounts offered and discounts not taken.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated all discounts offered should be reported, regardless of the time when the invoice is received. However, the \$10 limit is appropriate in determining if the discount is large enough to justify special processing.

FINDING D: QUALITY CONTROL PROGRAM

**For the Assistant Secretary for the Army
(Financial Management)**

SUMMARY

The Army did not establish the required quality control program to determine if invoices were paid promptly. The quality control program wasn't established because the existing programs of audits, inspections, and reviews were considered adequate to fulfill the quality control program requirements of Office of Management and Budget Circular A-125.

The existing programs of audits, inspections, and reviews didn't meet the essential requirements of a quality control program. The existing programs' primary weaknesses, in comparison to the quality control program requirements, were:

- Insufficient number of audits, inspections, and reviews.
- Limited scope of payments reviewed.
- Absence of a coordinated system for measuring and reporting results.

As a result of these primary weaknesses, the Army hadn't previously identified and corrected the payment problems we identified during the audit. And DA's report to DOD on total invoice payments of about \$10.9 billion processed during the 6 months ended 31 March 1990 didn't accurately show performance data on compliance with the Prompt Payment Act.

Our recommendations to correct these conditions begin on page 64.

BACKGROUND

Purpose of Quality Control Program

The President's Council on Integrity and Efficiency recommended in July 1988 that the Office of Management and Budget require government agencies to perform routine

DISCUSSION

In this section we discuss:

- The Army's determination that a separate quality control program wasn't needed.
- Actions needed to have an effective quality control program.

The Army's Determination That a Separate Quality Control Program Wasn't Needed

The Office of the Assistant Secretary of the Army (Financial Management) determined and reported in the Army's FY 90 Prompt Payment Act report that the existing programs of audits, inspections, and reviews adequately met the requirements of Circular A-125 and a separate quality control program wasn't required. This determination was strongly influenced by decreases in both operating funds and the number of authorized personnel.

But the Army's programs did not meet the essential requirements established in Circular A-125 because of (i) insufficient number of audits, inspections, and reviews; (ii) limited scope of payments reviewed; and (iii) absence of a coordinated system for measuring and reporting quality control results. As a result, the Army did not accurately assess and report its prompt payment performance.

This section discusses five parts of the Army's existing quality control programs:

- Audits by the Office of the DOD Inspector General and the U.S. Army Audit Agency.
- Reviews by Army inspectors general and internal review offices.
- Reviews by DA and major commands.
- Army Internal Management Control Program reviews.
- Quality assurance programs by each finance and accounting office.

- Internal review offices at three of the five installations made reviews in either FY 89 or FY 90 and identified problems in prompt payment performance. But adequate corrective action was not taken. During our audit, we identified similar problems in invoices payment performance.

DA did not direct inspectors general and internal review offices to perform routine inspections or reviews of the Army's payment systems. And DA did not establish a coordinated system for measuring and reporting results. In addition, like the audits made by the Office of the DOD Inspector General and the Army Audit Agency, inspections by Army inspectors general and reviews by internal review offices are different than the quality control program requirements in Circular A-125.

Reviews by DA and Major Commands

DA and major commands did not make routine and indepth reviews of prompt payment performance at finance and accounting offices.

AR 11-37 (Army Finance and Accounting Quality Assurance Program) describes the program for accomplishing quality assurance reviews of finance and accounting offices by DA Finance Network Quality (now part of the Finance Center) and major commands. The review techniques used by quality personnel parallel those of an inspection--checklists are used to identify policy and procedural weaknesses and strengths. Statistical sampling of payment vouchers and verifying of payment data with source documents are normally not done. The scope of the review is usually limited to several transactions.

DA Finance Network Quality reduced the number of quality assurance reviews performed. The number of reviews decreased significantly--from 101 in FY 89 to 20 in FY 90. The reduction in the number of quality assurance reviews resulted from a decrease in personnel and travel funds at DA Finance Network Quality. In FY 91, the Finance Center became responsible for the reviews, and it planned to make about 10 reviews in FY 91.

Major commands also reduced the number of quality assurance reviews made at subordinate finance and accounting offices. Three of the four major commands we visited made reviews in FY 90. But the three major commands made reviews at only nine finance and accounting offices, and only six of the reviews addressed prompt payment performance. Because of

assurance office should review payment of commercial vouchers to make sure that they are paid in accordance with the Prompt Payment Act. And the regulation doesn't provide a coordinated system for measuring and reporting results of reviews to DA managers.

The five finance and accounting offices we reviewed established quality assurance units. And the quality assurance units made reviews of selected aspects of prompt payment performance. But the reviews performed weren't of sufficient scope to identify and quantify the extent of payment performance problems so corrective action could be taken. For example, none of the quality assurance units reviewed invoice payments using statistical sampling. Problems identified by the quality assurance units still existed at the time of our audit.

The lack of effective quality assurance programs at the local finance and accounting offices was primarily attributed to the detailing of quality assurance personnel to perform other workload and inadequate oversight by finance and accounting officers.

Actions Needed to Have an Effective Quality Control Program

The Army needs to implement a quality control program to make sure bills are being paid promptly in accordance with the Prompt Payment Act. And to make sure the program is effectively operating throughout the Army, procedures for reporting on the results of quality control reviews should be established.

The most economical way of meeting the six essential elements of the quality control program required by Circular A-125 is to expand the existing quality assurance program at the installations' finance and accounting offices. The offices should be required to perform quality control reviews of commercial invoices at least annually to make sure they are paid as required by the Prompt Payment Act. The reviews should be made on a statistically sound basis, and the reviewers should use the original supporting documents and recompute the original calculations.

In addition, procedures need to be established for reporting quality control program results. As discussed in Finding C-Prompt Payment Act Reporting, finance and accounting offices did not accurately report performance data. And the existing five-part quality control program did not provide a reliable way of assessing the performance of payment systems throughout the Army. As a result, top Army managers did not know that the Army's report to DOD (DOD reports the Army's data to Office of Management and

- The requirement for at least annual quality control reviews.
- Reporting procedures.

D-4 Recommendation: Do not report in the FY 91 Prompt Payment Act report that the Army has an effective quality control program unless the above recommended actions have been implemented.

Command Comments: The Office of the Assistant Secretary of the Army (Financial Management) agreed and stated that the wording of the FY 91 Prompt Payment Act report reflected that the recommended changes are being implemented.

ANNEXES

ACTIVITIES INCLUDED IN THE AUDIT

<u>Activity</u>	<u>Audit</u>	
	<u>Period</u>	<u>Report Number</u>
<u>Defense Finance and Accounting Service-Indianapolis Center</u>	Jun 90-Jan 92	<u>a/</u>
<u>Assistant Secretary of the Army (Financial Management)</u>		
Finance Command	Jun 90-Jan 92	<u>a/</u>
<u>U.S. Army Materiel Command</u>		
Headquarters	Jun 90-Jan 92	<u>a/</u>
U.S. Army Aviation Systems Command	Apr 90-Feb 91	MW 91-601
McAlester Army Ammunition Plant	May 90-Mar 91	SW 91-601
Aberdeen Proving Ground	Apr 90-Jan 91	EC 91-600
<u>U.S. Army Training and Doctrine Command</u>		
Headquarters	Jun 90-Jan 92	<u>a/</u>
U.S. Army Soldier Support Center, Fort Benjamin Harrison	Jul 90-Feb 91	MW 91-602
<u>Forces Command</u>		
Headquarters	Jun 90-Jan 92	<u>a/</u>
Fort Sam Houston	Apr 90-Mar 91	SW 91-600

a/ This report includes results from the audit of this activity. We did not report the results separately.

OTHERS RECEIVING COPIES OF THE REPORT

Inspector General, Department of Defense
 Assistant Secretary of the Army (Installations, Logistics
 and Environment)
 Assistant Secretary of the Army (Research, Development,
 and Acquisition)
 Director of the Army Staff
 Director of Information Systems for Command, Control,
 Communications and Computers
 The Inspector General
 Chief of Public Affairs
 Deputy Chief of Staff for Personnel
 Deputy Chief of Staff for Logistics
 The Surgeon General
 The Judge Advocate General
 Chief, National Guard Bureau
 Deputy Assistant Secretary of the Army for Budget
 Director, Program Analysis and Evaluation
 Commander in Chief, Forces Command
 Commanders
 U.S. Army Training and Doctrine Command
 U.S. Army Materiel Command
 U.S. Army Health Services Command
 U.S. Army Corps of Engineers
 U.S. Army Criminal Investigation Command
 Third Region, U.S. Army Criminal Investigation Command
 Sixth Region, U.S. Army Criminal Investigation Command
 U.S. Army Finance Command
 U.S. Army Aviation Systems Command
 U.S. Army Soldier Support Center
 U.S. Army Engineer District, Baltimore
 Aberdeen Proving Ground
 McAlester Army Ammunition Plant
 Fort Sam Houston
 Director, Information Systems Selection and Acquisition
 Agency

Do not release this report outside the Department of the Army
 for 60 days from the report date, except to the Office of the
 Inspector General, Department of Defense. Afterward, release
 the report only in accordance with Army Regulation 25-55 and
 Department of the Army Memorandum 36-1.

27 December 1991

REPORT OF AUDIT

DoD-WIDE REVIEW OF PROMPT PAYMENT ACT PROCEDURES



AIR FORCE AUDIT AGENCY



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE SECRETARY

MEMORANDUM FOR SECRETARY OF THE AIR FORCE
CHIEF OF STAFF, USAF

SUBJECT: Report of Audit, DoD-wide Review of Prompt Payment Act Procedures (Project 90053021)

The Prompt Payment Act of 1982 and its 1988 Amendment direct Federal agencies to pay commercial vendor bills on time, take discounts when economically justified, and pay interest when payments are late. The Act also requires Federal agencies to prepare an annual report on compliance with Prompt Payment Act provisions. In support of these requirements, Air Force accounting and finance offices (AFOs) have established procedures for prompt payment of bills and reporting Prompt Payment Act data quarterly for subsequent consolidation by major commands and higher management levels. In Fiscal Year 1990, the Air Force paid over 3.7 million vouchers for bills subject to the Prompt Payment Act. These payments were for \$22.7 billion of goods and services.

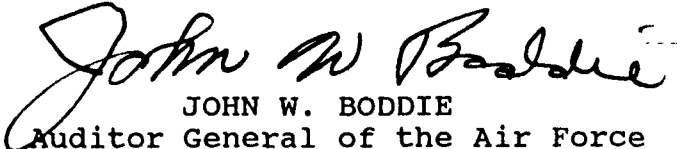
This audit was part of a DoD-wide Prompt Payment Act review requested by the DoD Comptroller. Our overall objective was to evaluate the effectiveness of Air Force implementation of the Prompt Payment Act. Specifically, we determined whether vendor bills were paid in accordance with the Act and Prompt Payment Act reports were accurate.

Overall, we concluded that the Air Force effectively implemented the Prompt Payment Act. Policies and procedures for paying vendor bills had been established, and Air Force directives had been continually updated to incorporate new Office of Management and Budget guidance. However, payment deficiencies, particularly at Bolling AFB, and inaccurate or unsupported reporting data warranted additional management attention. Specifically:

a. Of 1,305 vouchers reviewed at 11 AFOs, 99 (8 percent) were paid late, 45 (3 percent) were paid too early, and 84 (6 percent) were paid without properly taking cost-effective discounts. As a result, we estimate the Air Force incurred at least \$86,000 in unnecessary interest liability and lost over \$50,000 in interest income and discounts at the selected locations during the 2-month period reviewed. (Page 4, paragraph 3)

b. The 31 March 1990 Prompt Payment Act reports were inaccurate or improperly supported at 10 of 11 AFOs and 2 of 5 major commands reviewed. For example, disbursements subject to the Act were overstated by \$54.7 million at one base, and late payments were understated by \$60.6 million at another. Also, one command overstated by \$1.7 million the value of late payments caused by delays in receiving invoices. As a result, higher level management may not be able to rely on the information to identify and correct adverse payment trends. (Page 8, paragraph 4)

Management comments and actions planned are responsive to the issues and recommendations discussed in this report.


JOHN W. BODDIE
Auditor General of the Air Force

**DOD-WIDE REVIEW OF PROMPT
PAYMENT ACT PROCEDURES**

C O N T E N T S

	<u>Page</u>
SAF/AG Memorandum	i
Introduction	1
Audit Scope	2
TAB A Paying Bills	3
TAB B Reporting Prompt Payment Act Data	7
APPENDIX	
I Definitions/Notes	11
II Summary of Sample Vouchers Reviewed	12
III Summary of Prompt Payment Act Deficiencies	13
IV Locations Audited/Reports Issued	14
V Major Contributors to This Report	16
VI Distribution	17

DOD-WIDE REVIEW OF PROMPT PAYMENT ACT PROCEDURES

INTRODUCTION

1. The Prompt Payment Act of 1982 (Public Law 97-177) and its 1988 Amendment (Public Law 100-96) require Federal agencies to pay their commercial vendor bills on time (normally 30 days after receipt of an invoice) and to pay interest penalties when payments are late or when discounts are taken after the discount period has expired. These requirements do not apply to payments made to other Federal agencies or to contract financing payments.

a. Under the original Act, the discount period started on the date the vendor invoice was received and allowed a 15-day grace period for late payments, during which time interest did not accrue.

b. The 1988 Amendment, effective 1 April 1989, changed the start of the discount period to the date of the invoice, eliminated the grace period, and authorized early payments up to 7 days before the due date. In addition, the Amendment required payment of additional interest penalties when interest due was not paid.

2. Office of Management and Budget (OMB) Circular A-125 (Revised), Prompt Payment, 12 December 1989, prescribes Prompt Payment Act policies and procedures for executive agencies. The circular directs each agency chief to issue instructions that require monitoring causes of interest penalties, taking corrective action for noncompliance with the Prompt Payment Act, and accurately reporting Prompt Payment Act data.

3. Air Force Regulation (AFR) 177-102, Commercial Transactions at Base Level, 15 November 1987, implements OMB Circular A-125. In addition to providing guidance on payment procedures, AFR 177-102 requires each accounting and finance office (AFO) to prepare a quarterly Prompt Payment Act report summarizing information on disbursements, early and late payments, interest penalties, and discounts.

4. In Fiscal Year (FY) 1990, Air Force activities paid over 3.7 million vouchers for bills subject to the Prompt Payment Act. These payments were for \$22.7 billion of goods and services.

Project 90053021

5. This audit was announced and accomplished in FY 1991 under project number 0265321. As a result of a 1 October 1991 (FY 1992) revision to the Air Force Audit Agency Management Information System, project number 90053021 was assigned to this project.

AUDIT SCOPE

6. During the audit, we examined vouchers, reports, and related supporting documents dated from October 1987 through September 1990. Individual tabs provide additional details concerning the scope of audit.

7. Our audit was accomplished at 5 major commands (MAJCOMs)¹ and 11 AFOs² (see Appendix IV) during the period June through November 1990. This audit was performed in accordance with generally accepted Government auditing standards and, accordingly, included such tests of internal controls as considered necessary under the circumstances. A draft of this report was provided to management in July 1991.

PAYING BILLS

BACKGROUND

1. Directive Requirements. OMB Circular A-125 and AFR 177-102 specify when bills subject to the Prompt Payment Act are to be paid, how discounts are treated, and what quality control program requirements must be met.

a. Timing of Payments. Normally, AFOs must pay vendors as close as possible to, but not later than, the 30th day after receipt of a proper invoice. There is no grace period for contracts and contract modifications approved after 31 March 1989. Late payments require automatic payment of interest penalties at the rate in effect at the time interest begins to accrue. To minimize loss of interest income on Treasury funds, AFOs should not pay vendor bills earlier than 7 days prior to the payment due date.

b. Discount Policies. To induce prompt payment for goods or services provided, a vendor may offer a discount if the invoice is paid within a prescribed period (for example, 2 percent off if paid within 10 days). The discount period, unlike the payment period, begins with the date on the invoice, not the date the invoice was received. If the discount is more than the interest income the payment amount would accrue by the final due date, the discount is cost-effective and must be taken.

c. Quality Control Requirements. According to OMB Circular A-125, the Prompt Payment Act quality control program must be a systematic performance measurement system in place throughout an organization. The process for collecting information must be at least as thorough as the original payment process. The program should identify and correct objectively determined causes of deficiencies. AFR 177-10, Air Force Quality Assurance Program for Base-Level Accounting and Finance Activities, 15 October 1989, provides guidelines for establishing quality assurance programs at AFOs.

TAB A

AUDIT SCOPE

2. At the 11 AFOs, we reviewed a total sample of 1,305 vouchers, valued at \$40.2 million, from a population of 84,289 vouchers, valued at \$573 million (see Appendix II). At eight AFOs, the population included all vouchers paid in February and March 1990; at three AFOs (Bolling, Hanscom, and Wright-Patterson), the population included only those paid in March. At 10 AFOs, we selected from 10 to 20 of the highest dollar vouchers plus a random sample of 100 of the remaining. At the Wright-Patterson AFO, all 120 vouchers were randomly selected. We also examined contracts, vendor invoices, and receiving reports associated with the selected vouchers. Projections in our report are limited to the 11 AFOs audited and apply only to the vouchers paid in February and March 1990.

DISCUSSION

3. Paying Bills. Of the 1,305 vouchers reviewed, 99 (8 percent) were paid late, 45 (3 percent) were paid too early, and 84 (6 percent) were paid without properly taking cost-effective discounts. As shown in Appendix III, the extent and materiality of problems varied significantly among bases. For example, the AFO at Bolling AFB incurred \$25,021 (90 percent) of the \$27,840 interest liability for late payments and \$26,380 (96 percent) of the \$27,432 of discounts taken too late. These overall conditions occurred primarily because of insufficient emphasis on meeting Act requirements. In addition, as noted in paragraph 3d, quality assurance programs did not meet OMB Circular A-125 requirements. Details, including monetary impact, follow:

a. Late Payments. Payments were made late at 10 AFOs (Appendix III). Of the 99 vouchers paid late, 27 (2 percent of our total sample) were paid more than 30 days late. Late payment of the 99 vouchers, valued at \$6.3 million, created an interest liability of almost \$28,000. We estimate that at least 5,000 (6 percent) of the 84,289 vouchers in our population were paid late, resulting in a projected interest liability of at least \$86,000 for the 2-month period reviewed.

b. Early Payments. Payments were made too early at nine AFOS (Appendix III). Early payment of the 45 vouchers, valued at \$2.8 million, resulted in \$8,000 of lost interest income to the Treasury. We estimate that at least 1,510 (2 percent) of the vouchers in our population were paid too early. (Data were not available to statistically project lost interest income.)

c. Discounts. Cost-effective discounts were not properly taken at 10 AFOS (Appendix III). Of the 318 available cost-effective discounts in our sample, 65 (20 percent), totalling \$15,000, were not taken (10 bases), and 19 (6 percent), totalling \$27,000, were taken too late (5 bases). We estimate at least 3,400 cost-effective discounts were not properly taken at these locations during the 2-month period reviewed. (Data were not available to project the total value of lost discounts.)

d. Quality Control Programs. Quality control programs did not meet OMB Circular A-125 requirements at 5³ (45 percent) of the 11 AFOS. Two AFOS (Bolling and Norton) did not have adequate programs (for example, original payment decisions/calculations were not verified), and at three other AFOS (Hanscom, Little Rock, and Wright-Patterson), the method for gathering quality assurance data was not clear. Cause and effect could not be directly established between the attributes of AFO quality assurance programs and the deficiencies in our sample. Nevertheless, specific guidance on quality control, as defined in OMB Circular A-125, should increase the Air Force's effectiveness in complying with Prompt Payment Act requirements. Air Force regulations did not provide this guidance.

4. Recommendation 1. SAF/FM should:

a. Require MAJCOMS to increase management emphasis and oversight on compliance with Prompt Payment Act requirements.

b. Request the Defense Finance and Accounting Service - Denver Center (DFAS-DE) to amend AFR 177-10 to provide AFOS specific guidance on Prompt Payment Act quality control procedures that are consistent with requirements contained in OMB Circular A-125.

Project 90053021

TAB A

5. Management Comments. SAF/FM concurred and stated:

a. "DFAS-DE will issue a message to the major commands requesting them to place increased emphasis and oversight on compliance with the Prompt Payment Act. Estimated completion date is 31 January 1992.

b. "DFAS-DE will amend AFR 177-10, paragraph 2-3, to include the establishment of quality control procedures to review the payments made pursuant to the Prompt Payment Act. In addition, a Quality Assurance Bulletin will be issued to all network facilities to provide detailed requirements for establishing a quality control program in accordance with OMB Circular A-125. Estimated completion date is 31 January 1992."

6. Evaluation of Management Comments. Management comments and actions planned (paragraph 5) are responsive to the issues and recommendations discussed in this tab.

REPORTING PROMPT PAYMENT ACT DATA

BACKGROUND

1. Reporting Requirements.

a. Each AFO sends its MAJCOM a quarterly Prompt Payment Act Report (ACCT RPT(Q)1619) in accordance with AFR 177-102. The report includes data in eight basic categories: (1) number of disbursements subject to, and not subject to, the Prompt Payment Act; (2) value of disbursements subject to, and not subject to, the Prompt Payment Act; (3) early payments; (4) late payments; (5) total vendor payments (includes special financing and contract payments); (6) interest penalties due but not paid; (7) cash discounts available, taken, and lost; and (8) additional interest penalties. The reports must also summarize reasons for early and late payments, unpaid interest penalties, and lost discounts.

b. In turn, each MAJCOM forwards a consolidated quarterly report to the DFAS-DE, Directorate of Accounting Operations (DFAS-DE/A). At the end of each fiscal year, DFAS-DE/A submits an Air Force summary report to the Assistant Secretary of the Air Force (Financial Management and Comptroller) who, in turn, submits a consolidated appropriated/nonappropriated fund report to DFAS-Headquarters (HQ). DFAS-HQ consolidates all DoD reports and sends them to OMB.

2. Data Sources and Documentation. AFR 177-102 allows AFOs to determine how Prompt Payment Act report data are obtained and what records are maintained. For example, the directive states that early payment data can be obtained from logs, voucher copies accumulated for reporting purposes, or copies of payment checklists or suspense worksheets. As a result, AFOs gather data from several automated and nonautomated sources (Materiel Accounts Payable System, manual logs, etc.) and maintain Prompt Payment Act data using various forms of documentation.

TAB B

AUDIT SCOPE

3. We evaluated the accuracy of the 31 March 1990 Prompt Payment Act reports at 11 AFOs and 5 MAJCOMs. Specifically, we compared amounts in supporting documents to the appropriate category amounts in the quarterly reports.

DISCUSSION

4. Reporting Prompt Payment Act Data. The 31 March 1990 Prompt Payment Act reports were inaccurate or not properly supported at 10⁴ of the 11 AFOs and 2⁵ of the 5 MAJCOMs reviewed. The primary causes of these conditions were inadequate procedures for report preparation and review. As a result, higher level management may not be able to rely on the information to identify and correct adverse payment trends.

a. AFO Reports. The type and materiality of deficiencies at the 10 AFOs varied significantly, and installation-level reports of audit provided recommendations for corrective action. Nevertheless, errors such as those in the following table indicate a need for additional emphasis on and clarification of reporting requirements.

AFO Reporting Deficiencies

<u>AFO Location</u>	<u>Type of Information</u>	<u>Amount Reported (Millions)</u>	<u>Amount Over-/(Under-) Reported (Millions)</u>	<u>Error As Percent Of Amount Reported</u>
Norton	Value of Disbursements*	\$85.8	\$54.7	64%
Ellsworth	Value of Disbursements*	25.9	4.7	18%
Little Rock	Value of Disbursements*	15.3	(1.8)	12%
Mather	Value of Disbursements*	12.6	1.1**	9%

Maxwell	Value of Disbursements*	43.9	1.7	4%
Bolling	Late Payments	21.3	(60.6)	285%
Bolling	Discounts Lost	1.3	1.2	92%

* Includes only disbursements subject to the Prompt Payment Act, except as noted for the overreported amount for Mather AFO.

** The \$1.1 million may have included disbursements not subject to the Prompt Payment Act. Listings that confirmed the understatement did not segregate amounts subject to the Act.

The errors in the preceding table for the Ellsworth and Maxwell AFOs represent duplicate reporting of Air National Guard payments. During the audit, the requirement that only Guard units report payments made for them by supporting AFOs was clarified in a 15 September 1990 change to AFR 177-102. At the Norton and Bolling AFOs, the cause of errors was inadequate local procedures, and at the Little Rock and Mather AFOs, the cause of errors was a lack of quality control reviews. The latter two causes also contributed to deficiencies at three other AFOs.

b. MAJCOM Reports.

(1) The Air Force Systems Command (AFSC) Prompt Payment Act report did not accurately consolidate data concerning reasons for late payments and interest penalties. For example:

(a) The consolidated AFSC report indicated that 230 late payments, totalling \$1.7 million, were caused by delays in receiving vendor invoices. However, base reports contained a total of only six payments, totalling \$8,914, that were late due to delayed invoices.

Project 90053021

TAB B

(b) The consolidated AFSC report indicated 1,076 interest payments, totalling \$36,270, were caused by delays in AFO processing. However, base reports showed a total of 1,303 interest payments, totalling \$50,595, resulted from paying office delays.

(2) Base-level Prompt Payment Act reports used to compile the Military Airlift Command (MAC) report contained a total of \$167.4 million in unsupported adjustments for nine bases. HQ MAC officials indicated 12 of 14 base reports had to be adjusted at the MAJCOM because they were not in accordance with AFR 177-102. However, documentation was only available to support changes to three of the reports.

5. Recommendation 2. SAF/FM should:

a. Require MAJCOMs to increase management emphasis on preparing accurate and fully supported Prompt Payment Act reports at base and MAJCOM level.

b. Require MAJCOMs and AFOs to establish adequate written procedures for collecting and validating the accuracy of Prompt Payment Act data. We suggest that these procedures include more specific information on the sources and compilation of Prompt Payment Act data.

6. Management Comments. SAF/FM concurred in principle and stated:

a. "DFAS-DE will issue a message to the major commands emphasizing the need for accurate and fully supported Prompt Payment Act reports at both base and major command level. Estimated completion date is 31 January 1992.

b. "We will advise major commands to establish written procedures that will assure accurate and fully supported Prompt Payment Act reports. Estimated completion date is 31 January 1992."

7. Evaluation of Management Comments. Management comments and actions planned (paragraph 6) are responsive to the issues and recommendations discussed in this tab.

DEFINITIONS/NOTES

1. Air Force Logistics Command, Air Force Systems Command, Military Airlift Command, Strategic Air Command, and Tactical Air Command.
2. Bolling, Ellsworth, Fairchild, Hanscom, Little Rock, Mather, Maxwell, Nellis, Norton, Peterson, and Wright-Patterson AFOs.
3. Bolling, Hanscom, Little Rock, Norton, and Wright-Patterson AFOs.
4. Bolling, Ellsworth, Fairchild, Hanscom, Little Rock, Mather, Maxwell, Norton, Peterson, and Wright-Patterson AFOs.
5. Air Force Systems Command and Military Airlift Command.

**SUMMARY OF
SAMPLE VOUCHERS REVIEWED**

<u>AFO</u>	<u>TOTAL NUMBER OF VOUCHERS</u>	<u>NUMBER OF HIGH DOLLAR VOUCHERS</u>	<u>NUMBER OF RANDOMLY SELECTED VOUCHERS</u>	<u>VALUE OF VOUCHERS (IN MILLIONS)</u>	<u>MONTHS SELECTED</u>	<u>TOTAL VOUCHER POPULATION</u>	<u>VALUE OF TOTAL VOUCHER POPULATION (IN MILLIONS)</u>
BOLLING	120	20	100	\$8.7	MARCH*	10,258	\$162.8
ELLSWORTH	120	20	100	2.2	FEB/MAR	6,799	9.3
FAIRCHILD	115	15	100	1.0	FEB/MAR	6,099	13.5
HANSCOM	110	10	100	2.0	MARCH*	3,727	30.7
LITTLE ROCK	120	20	100	0.8	FEB/MAR	7,619	28.2
MATHER	120	20	100	1.6	FEB/MAR	4,915	8.6
MAXWELL	120	20	100	3.3	FEB/MAR	12,627	36.4
NELLIS	120	20	100	2.0	FEB/MAR	7,552	38.4
NORTON	120	20	100	1.6	FEB/MAR	6,207	53.2
PETERSON	120	20	100	16.1	FEB/MAR	10,149	137.8
WRIGHT-PATTERSON	120	0**	120	0.9	MARCH*	8,337	53.7
	---	---	---	----		-----	-----
TOTAL	1,305	185	1,120	\$40.2		84,289	\$572.6
	=====	====	=====	=====		=====	=====

* Reviews at Bolling, Hanscom, and Wright-Patterson were limited to March because of the value and volume of monthly transactions processed.

** High dollar vouchers were not separately identified; therefore, 120 vouchers were randomly selected for review.

**SUMMARY OF
PROMPT PAYMENT ACT DEFICIENCIES**

AFO	(1) LATE PAYMENTS		(2) EARLY PAYMENTS		(3) DISCOUNTS		
	NUMBER OF VOUCHERS	INTEREST LIABILITY INCURRED	NUMBER OF VOUCHERS	AMOUNT OF LOST INTEREST INCOME	NUMBER OF VOUCHERS	AMOUNTS	
						NOT TAKEN	TAKEN TOO LATE
BOLLING	23	\$25,021	8	\$914	17	\$8,191	\$26,380
ELLSWORTH	18	249	11	961	9	2,187	66
FAIRCHILD	15	270	2	3	0	0	0
HANSCOM	11	77	0	0	8	673	0
LITTLE ROCK	4	606	4	740	10	187	0
MATHER	0	0	1	0	3	32	0
MAXWELL	9	21	7	2,756	2	7	0
NELLIS	3	19	1	3	8	1,963	4
NORTON	7	209	10	1,618	14	2,091	976
PETERSON	6	1,358	0	0	8	18	6
WRIGHT-PATTERSON	3	10	1	892	5	21	0
	----	-----	----	-----	----	-----	-----
TOTAL	99	\$27,840	45	\$7,887	84	\$15,370	\$27,432
	=====	=====	=====	=====	=====	=====	=====

LOCATIONS AUDITED/REPORTS ISSUED

<u>Organization/Location</u>	<u>Installation-Level Reports Issued</u>
<u>Air Force District of Washington</u>	
1100th National Capital Region Support Group (NCRSPTG) Bolling AFB DC	704-1-35, 3 May 91
<u>Air Force Logistics Command (AFLC)</u>	
Headquarters AFLC Wright-Patterson AFB OH	None
2750th Air Base Wing Wright-Patterson AFB OH	445-1-05, 27 Nov 90
<u>Air Force Space Command</u>	
3d Space Support Wing Peterson AFB CO	261-1-05, 19 Oct 90
<u>Air Force Systems Command (AFSC)</u>	
Headquarters AFSC Andrews AFB DC	704-1-02, 5 Oct 90
Electronic Systems Division Hanscom AFB MA	325-1-08, 18 Dec 90
<u>Air National Guard (ANG)</u>	
*114th Tactical Fighter Group ANG Sioux Falls SD	218-1-03, 10 Oct 90
<u>Air Training Command</u>	
323d Flight Training Wing Mather AFB CA	920-1-02, 10 Oct 90

* This unit was reviewed in conjunction with audit work performed at Ellsworth AFB.

Project 90053021

<u>Organization/Location</u>	<u>Installation-Level Reports Issued</u>
<u>Air University (AU)</u>	
**Headquarters AU Maxwell AFB AL	922-1-02, 29 Oct 90
<u>Military Airlift Command (MAC)</u>	
Headquarters MAC Scott AFB IL	730-0-59, 17 Aug 90
63d Military Airlift Wing Norton AFB CA	725-1-03, 26 Oct 90
314th Tactical Airlift Wing Little Rock AFB AR	710-1-04, 19 Dec 90
<u>Strategic Air Command (SAC)</u>	
Headquarters SAC Offutt AFB NE	None
Strategic Warfare Center Ellsworth AFB SD	218-1-02, 5 Oct 90
92d Bombardment Wing Fairchild AFB WA	223-1-03, 9 Nov 90
<u>Tactical Air Command (TAC)</u>	
Headquarters TAC Langley AFB VA	None
554th Operations Support Wing Nellis AFB NV	565-1-03, 9 Oct 90

**This site was included as one of the 11 accounting and finance offices reviewed.

MAJOR CONTRIBUTORS TO THIS REPORT

Financial Management Division (AFAA/FSC)
Financial and Support Audits Directorate
Norton AFB CA

Colonel B. Sterling Roth, Associate Director
DSN 876-6857
Commercial (714) 382-6857

Lt Col Gerald V. Duckett, Program Manager

Ms. Mary L. Jacobs, Audit Manager

DISTRIBUTION

OIG, DoD

SAF/OS
SAF/FM
SAF/FMB
AF/CVA

Army Audit Agency
AU Library
DFAS-DE/P
DLSIE
GAO
Naval Audit Service
OAIG-AUD

AFOSI/IVF

AFIA
Units/Orgs Audited

FREEDOM OF INFORMATION ACT

The disclosure/denial authority prescribed in AFR 175-4 will make all decisions relative to release of this report to the public.

DOD-WIDE AUDIT TEAM MEMBERS

Office of the Assistant Inspector General for Auditing

Nancy L. Hendricks	Director, Financial Management
Raymond D. Kidd	Program Director
Richard A. Levine	Project Manager
Yung K. Chen	Team Leader
Sheela M. Javeri	Team Leader
Ernest R. Taylor	Team Leader
William F. Bazemore	Auditor
Robert L. Hoss	Auditor
Young J. Jin	Auditor
Ronald L. Smith	Auditor
Cordelia A. Williams	Auditor
Susanne B. Allen	Editor
Joan E. Fox	Editor

Army Audit Agency

Ivan D. Huelle, Audit Supervisor
Jon T. Wright, Auditor in Charge

Naval Audit Service

Richard A. Jones, Assistant Director
Del Amman, Auditor in Charge

Air Force Audit Agency

Colonel B. Sterling Roth, Associate Director
Mary L. Jacobs, Audit Manager